

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Advanced Financial Reporting (AFF)

EXAMINATION DATE: 19 June 2018

Section 1

General comments

The Candidates have performed well in this examination. The main reason for the good performance was attributable to the high scores for Questions 1, 2, and 4. However, Question 3 was not well done. Further analysis and common errors made by the Candidates are detailed in Section 2. The examination continues to be a restricted open book format with Candidates being able to bring in a double-sided A4 page of personal notes for reference.

Candidates are reminded to put in enough time and effort in their preparation for every examination. As the AFF module builds upon the knowledge acquired from the Principles of Financial Reporting (PFF) module, Candidates are expected to revise the PFF topics as part of their preparation for the AFF examination. The level of proficiency required for AFF is also substantially higher than what is required to complete the PFF module successfully, so the level and intensity of preparation and practice should be commensurate to the higher level of proficiency required.

It is also noted that Candidates have generally improved in their time management and have planned their time accordingly to the requirements of each question. Most of the Candidates attempted all the questions with at least some solutions provided.

For this examination, unless specified otherwise, Candidates were to assume that all Private Limited reporting entities adopted, for all the relevant years, the Singapore Financial Reporting Standards (SFRS) that were issued by the Accounting Standards Council as at 1 January 2018. Further, Candidates were to assume that all Publicly Listed reporting entities (including any subsidiaries and associates) adopted, 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.

Moving forward, all 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.

Section 2
Analysis of individual questions

Question 1

Question 1 was on 'consolidated financial statements'. The case involved a simple group where the parent acquired control of a subsidiary and significant influence in an associate.

This case also involved the usual purchase price allocation and other inter-company transaction issues. The question required the preparation of the consolidated statement of comprehensive income and consolidated statement of financial position.

Most of the Candidates scored better for the consolidated statement of financial position, compared to that of the consolidated statement of comprehensive income. As noted in the previous AFF examination, Candidates were not able to derive items like 'profit/total comprehensive income attributable to equity holders of the parent' and 'profit/total comprehensive income attributable to non-controlling interests'. In addition, the Candidates could not identify the accounting impact for the unrealised profit of the intercompany sales transactions of the preceding year. The majority of the Candidates also could not derive the consolidated retained profits, non-controlling interests, and goodwill as at the financial year-end. For the profits attributable to non-controlling interests, many Candidates did not eliminate the additional profit recorded by the subsidiary on the sale of undervalued freehold land.

Many of the Candidates were not well versed with equity accounting for an associate company and could not derive the 'investment in associate' balance as at financial year-end. This could be because the Candidates were not aware of the correct accounting treatment for intercompany transactions with the associate. They were also not familiar with the calculation of loss on sale of machinery from an associate to its parent company. In addition, many Candidates did not eliminate correctly the depreciation expenses on the machinery for two years.

On the whole, Candidates performed well on elimination of intercompany sales, intercompany balances, unrealised profit on closing inventories, and dividend from the subsidiary and associate for the current year. Also, there were clear and relevant workings given by most of the Candidates, so that working marks could be awarded even though incorrect amounts / balances were presented in the consolidated financial statements.

Candidates are reminded that relevant workings are those that show clearly the items that make up the amounts / balances in the consolidated financial statements. As such, consolidation journal entries generally do not constitute workings, especially if a Candidate does not show clearly how the amounts in the journal entries attribute to the amounts / balances in the consolidated financial statements.

Despite the above, a few Candidates scored full marks indicating that they were well-versed with the consolidation process. Some Candidates even provided

analytical proof for the retained earnings, non-controlling interests, and investment in associate, even though this was not required in the question.

Question 2

Question 2 comprised two parts, one of which was on recognition and measurement for share-based payment transactions, including their settlement; and the other part tested the Candidates on identification of potential threats to ethical behaviour and applying professional ethics in the context of Financial Reporting and the working environment.

In relation to **Part I**, most of the Candidates were able to correctly identify the double entries for the share-based payment transactions, even though few of them were able to compute the amount correctly.

Some Candidates did not have a good grasp of the concept of share options resulting in very illogical accounting entries being provided and computations done. For example, on exercising of the option, some Candidates credited the cash account while others used the share price instead of the exercise price to determine the amount of cash received.

In relation to **Part II**, most of the Candidates were able to identify the fundamental principles and threats in the scenario given. However, not many Candidates were able to identify the appropriate safeguards requested. There were a handful of Candidates who misinterpreted the question and discussed a self-review threat, rather than a self-interest threat in their answers.

Question 3

Question 3 required the Candidates to apply SFRS 11 *Construction Contracts* to compute construction revenue and costs, as well as account for the transactions. However, Candidates were not penalised if they applied SFRS 115 *Revenue from Contracts with Customers*. As noted 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.

Generally, most Candidates did poorly for this question.

The first part required Candidates to compute the construction revenue and costs for two separate years. Most Candidates were able to correctly identify the revenue and costs for the first year. However, for the second year, Candidates made mistakes in the computation of the total estimated cost and percentage completed. Consequently, they were not able to derive the correct revenue and costs for the second year. Also, most of the Candidates did not identify that there was a provision for foreseeable loss necessary for the contract that needed to be recognised immediately in the second year.

The second part required the Candidates to prepare the journal entries for the second year. They were largely able to state the accounts correctly, but were not able to derive the correct amounts, especially when recording the loss for the second year.

Question 4

Question 4 examined the Candidates on two main areas. The first was on call options and relevant accounting entries under *Financial Instruments* (SFRS 109). The second was on identification of related parties and the relevant disclosure requirements under SFRS 24 *Related Party Disclosures*.

Candidates generally performed well for the journal entries to record the call option transactions.

A common mistake was using the share price of the investment as the exercise price of the call option. It is important that Candidates read the facts of the case carefully before they attempt to answer the question.

Candidates performed well for the related party disclosures. Generally, they could identify most of the related parties. For the items and relationships to be disclosed in the financial statements, some Candidates listed the related party transaction disclosures without specific application to the facts in the case. Although the Candidates were able to identify most of the items or transactions that required disclosure in the financial statements, many of them omitted items such as 'outstanding balances' pertaining to the transactions from fellow subsidiaries together with the agreed 'terms and conditions' and the 'nature of the consideration to be provided in settlement', as well as the 'outstanding balance' pertaining to the loan from a related party (the key management personnel's wife).