

Singapore CA Qualification (Foundation) Examination

19 June 2018

Advanced Financial Reporting

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **3 hours 15 minutes**, including 15 minutes of reading time. Only annotations are allowed on the question paper during the reading time.
2. This examination paper has **FOUR (4)** questions and comprises **SEVENTEEN (17)** pages (including this instruction sheet and appendix A). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. Only calculators that comply with the SAC's regulations may be used during the examination. However, computers, mobile phones, tablets, and other electronic devices **MUST NOT** be used during the examination.
4. The number of marks allocated is shown at the end of each question.
5. Write legibly in black/blue ink only.
6. All answers must be written in the answer booklets provided.
7. Begin your answer to each question in a separate answer booklet.
8. This question paper **MUST NOT** be removed from the examination room.
9. This examination paper is the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

10. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
11. Unless specified otherwise:
 - (i) Assume that all **Private Limited** reporting entities adopt, for all the relevant years, the Singapore Financial Reporting Standards (SFRS) that were issued by the Accounting Standards Council as at 1 January 2018.
 - (ii) Assume that all **Publicly Listed** reporting entities (including any subsidiaries and associates) 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.
12. 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.

Question 1 – (a) only

Hancock Pte Ltd (Hancock) acquired 75% of Sears Pte Ltd (Sears) and 30% of Aon Pte Ltd (Aon) on 31 December 20x5. The following are the summarised financial statements of the respective companies:

Statement of Comprehensive Income
For the financial year ended 31 December 20x7

	Hancock	Sears	Aon
	\$'000	\$'000	\$'000
Sales	38,360	30,920	13,250
Cost of sales	(21,700)	(17,200)	(8,650)
Gross profit	16,660	13,720	4,600
Other income	3,240	2,180	800
Operating expense	(12,400)	(12,800)	(6,300)
Profit (Loss) before tax	7,500	3,100	(900)
Tax expense	(1,300)	(500)	(60)
Profit (Loss) after tax / Total comprehensive income (loss)	6,200	2,600	(960)

Statement of Financial Position

As at 31 December 20x7

	Hancock \$'000	Sears \$'000	Aon \$'000
Non-current assets			
Property, plant, and equipment	10,740	9,200	5,340
Investment in Sears Pte Ltd (at cost)	6,000	0	0
Investment in Aon Pte Ltd (at cost)	1,140	0	0
	<u>17,880</u>	<u>9,200</u>	<u>5,340</u>
Current assets			
Inventories	2,190	900	1,450
Trade and other receivables	2,110	2,600	2,150
Cash and cash equivalents	4,300	2,310	1,880
	<u>8,600</u>	<u>5,810</u>	<u>5,480</u>
Total assets	<u>26,480</u>	<u>15,010</u>	<u>10,820</u>
Equity			
Share capital	6,000	4,000	1,000
Retained earnings	15,980	7,500	4,630
	<u>21,980</u>	<u>11,500</u>	<u>5,630</u>
Current liabilities			
Trade and other payables	3,200	2,710	3,990
Provision for tax	1,300	800	1,200
	<u>4,500</u>	<u>3,510</u>	<u>5,190</u>
Total equity and liabilities	<u>26,480</u>	<u>15,010</u>	<u>10,820</u>

Statement of Changes in Equity (extract)
For the financial year ended 31 December 20x7

	Hancock	Sears	Aon
	Retained earnings	Retained earnings	Retained earnings
	\$'000	\$'000	\$'000
Balance as at 1 January 20x7	10,780	5,400	5,790
Total comprehensive income	6,200	2,600	(960)
Dividend paid	(1,000)	(500)	(200)
Balance as at 31 December 20x7	15,980	7,500	4,630

Additional information:

1. Ignore all income tax and deferred tax effects, if any, arising from business combinations.
2. There has been no change in share capital in the companies within the Group since the respective acquisition dates.
3. Other income account consists of dividend income, gain (or loss) on sale of property, plant and equipment, and other miscellaneous income.
4. When Hancock acquired Sears on 31 December 20x5:
 - Sear's net assets were represented by share capital and retained earnings of \$4,000,000 and \$2,300,000 respectively.
 - Sear's freehold land was carried at \$400,000 below its fair value. Sears sold this piece of freehold land during the financial year ended 31 December 20x7 for a gain of \$700,000.
5. During the financial year ended 31 December 20x7, Hancock sold to Sears inventory costing \$2,400,000 for a gross profit for \$820,000. As at 31 December 20x7, 30% of this inventory remained in the store of Sears.
6. On 31 December 20x7, Sears made a payment of \$250,000 for the inventory purchased from Hancock in December 20x7, but Hancock had not received this payment. As at 31 December 20x7, Hancock's trade receivables account had an amount of \$250,000 due from Sears, but Sears' trade payables account showed a nil balance owing to Hancock.
7. When Hancock purchased a 30% stake in Aon on 31 December 20x5 for cash consideration of \$1,140,000, the fair value of Aon's net assets was represented by share capital of \$1,000,000 and retained earnings of \$2,800,000.

8. On 1 January 20x6, Aon sold a machine, costing \$1,200,000, to Hancock for \$510,000. As at that date, the accumulated depreciation of this machine was \$480,000, and the remaining useful life was three years. The machine was still held and used by Hancock as at 31 December 20x7.
9. Assume that a shareholding of more than 50% gives rise to control, while a shareholding between 20% and 50% gives rise to significant influence.
10. The Group adopts the straight-line method to depreciate its property, plant, and equipment, and records depreciation as an operating expense.
11. The Group adopts the proportionate share of the fair value of the subsidiaries' identifiable net assets in measuring any non-controlling interest.

Question 1 required:

(a) Prepare the following Consolidated Financial Statements for the Hancock Pte Ltd Group:

(i) Consolidated Statement of Comprehensive Income for the year ended 31 December 20x7. **(16 marks)**

(ii) Consolidated Statement of Financial Position as at 31 December 20x7. **(20 marks)**

(Total: 36 marks)

Question 2 – Part I and Part II

Part I

Newton Ltd (Newton), which adopts a 31 December financial year-end, is a local listed company on the Singapore Exchange (SGX). To conserve the company's cash for working capital purposes, share options were granted as an alternative to cash bonus payment to reward its senior managers.

On 2 January 20x3, Newton granted 30,000 share options to each of its ten senior management officers (Officers), comprising directors and senior managers from various departments.

The following table depicts the relevant information of the share options that each Officer is entitled to:

Vesting Date	Number of Share Options	Exercise Price (\$)	Fair Value as at 2 January 20x3 (\$)
31 December 20x4	15,000	18.00	12.00
31 December 20x5	15,000	18.00	14.00

The share options would vest on the respective vesting dates on the condition that the Officers continue to be working for the company. The options will expire at the end of three years from the vesting date if not exercised.

No Officer left Newton during the financial year ended 31 December 20x3. On 31 December 20x3, it was estimated that all the Officers would continue to be employed until 31 December 20x5.

Two Officers left Newton in August 20x4 and eight out of the ten Officers remained in employment with Newton as at 31 December 20x4. It was also estimated that one more Officer would leave Newton by 31 December 20x5.

On 31 January 20x5, the share price of Newton was \$22.00 and three out of the remaining eight Officers exercised all their vested share options. On the following day, two of these three Officers tendered their resignation and left the company three months later. As at 31 December 20x5, six Officers remained in employment with Newton.

All the remaining share options, which vested on 31 December 20x4, were exercised by the Officers on 31 December 20x5 when the share price was \$20.00.

Question 2 Part I required:

As Newton is a listed entity, you should apply the Singapore Financial Reporting Standards (International).

- (a)** Prepare the journal entries for the financial years ended 31 December 20x3 to 20x5. Ignore the tax effects, if any.

Present your journals in the following format:

Transaction date

DR Account Name 100

CR Account Name 100

(Narration or journal title)

(17 marks)

Part II

In view of the sluggish economy, Newton's share price had seen a declining trend. After 31 December 20x5, the shares of Newton were constantly trading below \$18.00. The financial statements for the financial year ended 31 December 20x5 were due to be finalised for public announcement in February 20x6.

Nash, who is a member of the Institute of Singapore Chartered Accountants, was the newly promoted Director of the Finance Department. He was also one of the Officers who was holding vested share options.

During a monthly management meeting in January 20x6, the directors and senior managers from other departments raised their concerns that the current share price was too low for them to exercise the share options. Specifically, the Corporate Treasury Director suggested for Nash to write back the allowance for impairment of the long-term investments before the accounts for the financial year ended 31 December 20x5 were finalised. The rest of the directors and senior management also believed that such a write-back of impairment could improve the financial performance of the company and boost the share price in the near future. They further reassured Nash that the allowance for impairment could be reinstated in the following financial year, after all the share options were exercised.

However, based on Nash's assessment of the performance of Newton's long-term investments, a further impairment loss would be required for the financial year ended 31 December 20x5 and a write-back of impairment would not be appropriate.

Question 2 Part II required:

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

- (a)** Identify ONE fundamental principle which is being threatened from the perspective of Nash, the Finance Director. **(3 marks)**

- (b)** Describe ONE threat that could compromise, or be perceived to compromise, the Finance Director's compliance with the fundamental principle identified in Part II (a) above. **(3 marks)**

- (c)** Recommend ONE type of safeguard action the Finance Director could take to eliminate or reduce the threat to the fundamental principle identified in Part II (b) above. **(3 marks)**

(Total: 26 marks)

Question 3 – (a) and (b)

Home Build Pte Ltd (Home Build), a property development company, entered into an agreement to take on a three-year project to construct a residential building. The project commenced on 1 January 20x5 and the contract price was fixed at \$7 million.

The company adopts the percentage-of-completion method to recognise revenue and costs associated with the construction project. It makes use of the proportion of costs incurred to-date in relation to the estimated total costs of the contract to determine the percentage of completion.

Relevant data extracted from the construction records for both financial years ended 31 December 20x5 and 20x6 are as follows:

For the financial year ended	20x5 (\$'000)	20x6 (\$'000)
Costs incurred for the year	1,450	3,700
Estimated costs to complete	4,700	3,800
Billings to-date	1,200	3,420
Cash collected to-date	1,050	2,860

Question 3 required:

- (a) Compute the construction revenue and construction costs to be recorded in the profit or loss statement for the financial years ended 31 December 20x5 and 31 December 20x6 in accordance with Singapore Financial Reporting Standard (SFRS) 11 *Construction Contracts*. Express your answer to the nearest thousand. Show all workings. **(6 marks)**
- (b) Prepare the journal entries for the financial year ended 31 December 20x6. Ignore the tax effect including Goods and Services Tax, if any.

Present your journals in the following format:

Transaction date

DR Account Name 100

CR Account Name 100

(Narration or journal title)

(9 marks)

(Total: 15 marks)

Question 4 – Part I and Part II

Part I

Adeco Pte Ltd (Adeco) is an investment holding and trading company.

On 1 January 20x7, Adeco purchased a cash-settled call option at a premium of \$5,000. The call option grants Adeco the option to buy 20,000 Knowdell shares on 31 March 20x7 at \$2.50 each.

The following shows the information on the call option:

Date	Fair value of call option per share (\$)
31 January 20x7	0.15
28 February 20x7	0.23
31 March 20x7	0.35

Question 4 Part I required:

- (a) Prepare the journal entries to record the events and transactions as at 1 January 20x7, 31 January 20x7, 28 February 20x7, and 31 March 20x7. Show all workings. Ignore tax effects and transaction costs, if any.

Present your journals in the following format:

Transaction date

DR Account Name 100

CR Account Name 100

(Narration or journal title)

(10 marks)

Part II

Adeco Pte Ltd (Adeco) was founded in 20x1 by Lia who, at that time, owned 100% of the shareholding in Adeco. Besides Adeco, Lia also owns 10% of the shareholdings each in Fabre Pte Ltd and Gemma Pte Ltd.

In January 20x6, Lia sold 70% of her shares in Adeco to Bollore Pte Ltd, a property investment company. Besides Adeco, Bollore Pte Ltd also owns 75% of the shareholding in Camila Pte Ltd. Since the acquisition of Adeco by Bollore Pte Ltd in January 20x6, Camila Pte Ltd has been providing management services to Adeco for a monthly fee of \$5,000.

Subsequently in March 20x7, Bollore Pte Ltd awarded the Managing Director of Adeco, Davin, with employee share options in lieu of a cash bonus for his services in Adeco for the financial year ended 31 December 20x6. In the same year, Davin's wife, Debbie, advanced a five-year loan to Adeco at an interest rate of 4% per annum.

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

Question 4 Part II required:

For the financial year ended 31 December 20x7:

- (a)** Explain if the companies and individuals mentioned in the above scenario are related parties of Adeco Pte Ltd. **(7 marks)**

- (b)** State the items and relationships that Adeco Pte Ltd needs to disclose under Singapore Financial Reporting Standard (SFRS) 24 *Related Party Disclosures* in its financial statements for the year ended 31 December 20x7. **(6 marks)**

(Total: 23 marks)

END OF PAPER

Appendix A - Common verbs used by the Examiners

Verb	Description
Calculate / Compute	Do the number crunching and derive the correct answer. Make sure that you write down your workings and crosscheck your numbers.
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. Justify is similar to defend .
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 ...".
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.