

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Advanced Financial Reporting (AFF)

EXAMINATION DATE: 10 June 2019

Section 1

General comments

The Candidates have performed well in this examination. The main reason for the good performance was attributable to the good results from Questions 1, 2, and 3. On the other hand, Question 4 was not well done. Further analysis and common errors made by the Candidates are detailed in Section 2.

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 noted that most Candidates have done well in their time management and have planned their time accordingly to the requirements of each question. Most of the Candidates attempted all the questions.

For this examination, unless specified otherwise, Candidates were to assume that all the reporting entities in all the questions 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 2019.

Section 2

Analysis of individual questions

Question 1

This question was on consolidated financial statements involving a Group where there was a subsidiary and an associate. It required Candidates to prepare consolidation and equity accounting journal entries in **part (a)**, as well as provide independent proof for retained earnings, fair value reserves and non-controlling interest in **part (b)**.

Part (a) was generally well done. Most Candidates could provide the basic investment elimination journal entries, elimination of intragroup dividend and equity accounting journal entries. The commonly-made errors are summarized as follows:

1. Recording of additional depreciation on equipment

At the date of acquisition of the subsidiary, the fair value of the equipment was higher than the net book value. This should result in the economic entity (group) recording higher depreciation charges, hence having a negative impact on retained earnings and current year's profits. Also, this adjustment should be taken into consideration when calculating the Non-controlling interest's share of retained earnings and profits for the year.

Quite a number of Candidates were not able to identify the correct entry (or correct amount) for this adjustment.

2. Adjustment of unrealized profit on intercompany sale

It was stated in the question that cost of goods was \$8.1m and gross profit was \$2.7m for the inter-company sales during the year. As at year-end, 40% remained unsold. Hence, unrealized profit from the Group's perspective should be $\$2.7\text{m} \times 40\% = \1.08m . As this was an upstream sale, this adjustment should be taken into consideration when calculating the Non-controlling interest's share of profits for the year.

Many Candidates misunderstood the question and used \$8.1m as the sales, rather than cost of sales in the consolidation journal entries.

3. Recording Non-controlling interest

A number of Candidates failed to adjust the beginning retained earnings and current year's profits of the subsidiary for the non-controlling interest. For this question, Non-controlling interest had a share of the additional depreciation of the equipment, unrealized profits for the intercompany sale, dividend appropriation and changes in fair value reserves.

A small number of Candidates provided the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position, instead of the journal entries as required by the question.

Part (b) was poorly done. Many Candidates provided the group retained earnings, fair value reserves and Non-controlling interest by simply doing a summation of the consolidation and equity accounting journal entries as prepared for **part (a)**. This was not the correct approach as the question required them to provide independent proofs.

There were some Candidates who provided the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position instead of the independent proofs as required by the question.

Candidates are reminded to provide clear and relevant workings. In the event that Candidates presented incorrect amounts/balances in their answers, the absence of such workings would result in the loss of marks.

Question 2

Question 2 required the Candidates to prepare accounting entries for the hedging instrument and hedged item under SFRS(I) 9; and explain how the gain or loss on the forward foreign exchange contract used to hedge against the foreign investments as well as the translation gain or loss on beginning net assets of the foreign investments should be accounted for in both the separate financial statements and the group financial statements.

For **part 1**, most of the Candidates were able to correctly identify the double entries for the transactions. However, some of them did not state clearly if the fair value changes in the hedging instrument were to be recognised as a profit (or loss) or other comprehensive income item, which was required in the question.

Most Candidates did not do well for **part 2** of the Question. Most of them did not have a good understanding on the concept of hedging against foreign investments. Most of them also did not explain clearly the difference in accounting treatments between the gain or loss on the forward foreign exchange contract and the translation gain or loss on the beginning net assets of the foreign investment in the separate and group financial statements.

However, it was noted that almost all Candidates included narration for the journal entries together with the correct transaction dates.

Question 3

Part 1 (a) & (b) of this question required the Candidates to identify the related parties of the reporting entity and to disclose the relevant relationship, transactions and balances with related parties as required by SFRS(I) 1-24 *Related Party Disclosures* in the financial statements.

Candidates performed well for the related party disclosures. Generally, they could identify most of the related parties. However, some Candidates omitted the need to examine the substance of the relationships and not merely the legal form (voting powers) when percentage of shares held by a company in another company is not significant. A number of Candidates misunderstood the meaning of related party and assumed that 2 entities were related parties as long as they had a director or key manager in common. As per SFRS(I) 1-24 *Related Party Disclosures* paragraph 11(a), two entities are not related parties simply because they have a director or key manager in common.

For items and relationship to be disclosed in the financial statements, Candidates generally were able to list the related party transaction that comply with the disclosures requirement under SFRS(I) 1-24 *Related Party Disclosures*. Although the Candidates were able to identify most of the items or transactions that required disclosure in the financial statements, some omitted items such as the parent-

subsidiary relationship of the ultimate holding company, any allowance for impairment related to outstanding amounts and impairment expense recognised during the financial reporting period for these amounts and any outstanding balances pertaining to the company and its associate. We also noted that some Candidates omitted that disclosure is required for sales made to the associate.

Part 2 (a) – (c) of Question 3 tested the Candidates on the identification of fundamental principles that were being threatened under the ISCA Code of Professional Conduct and Ethics, identification of potential threats to ethical behaviour, application of professional ethics in the context of the working environment and recommendation of appropriate actions to eliminate or reduce the potential threats to ethical behaviour. Candidates must use the information in the case to explain how professional ethical behaviour will be affected by the potential threats.

Most of the Candidates were able to identify the fundamental principles, threats and recommendation to eliminate or reduce the potential threats in the scenario given. For fundamental principles, most Candidates were able to identify the fundamental principles, explain the definition of the fundamental principles and how the identified fundamental principles were affected in relation to the case provided.

However, some Candidates did not mention what the accountant should do as a result of the threat that the accountant is facing. Also, not many Candidates were able to name and identify the appropriate safeguards requested to eliminate the threat to the fundamental principles.

Question 4

Part 1 of this question required the Candidates to explain whether the share-based payment plan stated in the question is an equity-settled or cash-settled share-based payment transaction. **Part 2** of the question required the Candidates to prepare the journal entries for the share-based payment plan for the respective financial years.

For **part 1**, most of the Candidates were able to correctly identify that it was a cash-settled share-based payment transaction.

For **part 2**, most of the Candidates were able to prepare the double entries for the transactions even though very few of them were able to compute the amounts for all the accounting entries of the respective financial years correctly.

Candidates are again reminded to provide clear and relevant workings. In the event that Candidates presented incorrect amounts/balances in their journal entries, the absence of such workings would result in the loss of working marks.

However, it was noted that almost all Candidates included narration for the journal entries together with the correct transaction dates.