

Singapore CA Qualification (Foundation) Examination

10 June 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-ONE (21)** 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.
8. Present all Journal Entries in the following format:

Transaction date

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

Question 1 – (a) and (b)

Havana Pte Ltd (Havana) acquired 60% of Savannah Pte Ltd (Savannah) on 1 January 20x6 and 35% of Adage Pte Ltd (Adage) on 1 January 20x7. The following are the summarised financial statements of the respective companies:

Statement of Comprehensive Income
For the financial year ended 31 December 20x9

	Havana	Savannah	Adage
	\$'000	\$'000	\$'000
Sales	83,450	72,300	46,220
Cost of sales	(33,380)	(38,920)	(22,450)
Gross profit	50,070	33,380	23,770
Other income	8,380	5,210	3,250
Operating expenses	(46,650)	(31,000)	(23,410)
Profit before tax	11,800	7,590	3,610
Tax expense	(2,000)	(2,090)	(2,110)
Profit after tax	9,800	5,500	1,500
Other comprehensive income	850	250	300
Total comprehensive income	10,650	5,750	1,800

Statement of Financial Position
As at 31 December 20x9

	Havana	Savannah	Adage
	\$'000	\$'000	\$'000
Non-current assets			
Property, plant, and equipment	66,600	36,040	20,300
Investment in Savannah Pte Ltd (at cost)	26,000	-	-
Investment in Adage Pte Ltd (at cost)	9,485	-	-
Financial assets measured at fair value through other comprehensive income	7,520	5,840	4,300
	<hr/> 109,605	<hr/> 41,880	<hr/> 24,600
Current Assets			
Inventories	6,800	4,600	5,550
Trade and other receivables	4,540	4,300	3,290
Cash and cash equivalents	9,210	5,760	4,390
	<hr/> 20,550	<hr/> 14,660	<hr/> 13,230
Total Assets	<hr/> 130,155	<hr/> 56,540	<hr/> 37,830
Equity			
Share capital	85,000	30,000	21,000
Retained earnings	32,100	18,180	9,820
Fair value reserves	3,230	1,320	2,600
	<hr/> 120,330	<hr/> 49,500	<hr/> 33,420

	Havana	Savannah	Adage
	\$'000	\$'000	\$'000
Current liabilities			
Trade and other payables	6,025	4,540	2,280
Provision for tax	3,800	2,500	2,130
	9,825	7,040	4,410
Total Equity and Liabilities	130,155	56,540	37,830

Statement of Changes in Equity (extract)
For the financial year ended 31 December 20x9

	Havana		Savannah		Adage	
	Fair value reserves \$'000	Retained earnings \$'000	Fair value reserves \$'000	Retained earnings \$'000	Fair value reserves \$'000	Retained earnings \$'000
Balance as at 1 January 20x9	2,380	24,300	1,070	14,380	2,300	8,920
Total comprehensive income	850	9,800	250	5,500	300	1,500
Dividend paid	-	(2,000)	-	(1,700)	-	(600)
Balance as at 31 December 20x9	3,230	32,100	1,320	18,180	2,600	9,820

Additional information:

1. The Group, consisting of Havana and Savannah, 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 the companies within the Group since the respective acquisition dates.
4. Other income consists of dividend and other miscellaneous income.
5. The fair value reserves relate to revaluation of investments classified as fair value through other comprehensive income.
6. When Havana acquired Savannah on 1 January 20x6:
 - Savannah's retained earnings and fair value reserves amounted to \$8,520,000 and \$500,000 respectively.
 - The fair value and net book value of Savannah's equipment was at \$10,800,000 and \$8,900,000 respectively. As at that date, the remaining useful life of the equipment was five years.
7. For the financial year ended 31 December 20x9, Savannah sold goods costing \$8,100,000 to Havana for a gross profit of \$2,700,000. As at 31 December 20x9, 40% of these inventories remained in the store of Havana.

8. On 31 December 20x9, Havana made a payment of \$320,000 for the inventory purchased from Savannah in October 20x9, but Savannah had not received this payment. As at 31 December 20x9, Savannah's trade receivables account had an amount of \$500,000 due from Havana, but Havana's trade payables account showed \$180,000 balance owing to Savannah.
9. Impairment loss of \$330,000 was recognised against goodwill arising from the acquisition of Savannah for the financial year ended 31 December 20x9. Impairment loss on goodwill is to be recorded as an operating expense.
10. When Havana purchased its stake in Adage on 1 January 20x7, the value of Adage's retained earnings and fair value reserves was at \$4,200,000 and \$1,900,000.
11. Assume that a shareholding of more than 50% gives rise to control, while a shareholding between 20% and 50% gives rise to significant influence.
12. 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 required:

- 1** **(a)** Prepare the relevant consolidation and equity accounting entries for Havana Pte Ltd Group for the financial year ended 31 December 20x9. **(24 marks)**
- 2** **(b)** In relation to the Consolidated Statement of Financial Position as at 31 December 20x9, provide independent proof for the following equity items:
- (i)** Retained earnings **(6 marks)**
- (ii)** Fair value reserves **(4 marks)**
- (iii)** Non-controlling interests **(4 marks)**
- (Total: 38 marks)**

Question 2 – Part I and Part II

Part I

Nobel Pte Ltd (Nobel), a commodity trading company, had an inventory of 450 tonnes of lead as at 31 December 20x7, which was carried at cost of \$3,532 per tonne.

To hedge the volatility in the fair value of its lead inventory, Nobel entered into a futures contract on 1 January 20x8 to sell the 450 tonnes of lead, which is to be settled on 31 March 20x8. Nobel had applied fair value hedge accounting and had designated the change in fair value of the futures contract (based on future prices) as a hedge on the change in the fair value of the inventory of lead (based on spot prices). On 31 March 20x8, the futures contract was duly settled. On the same day, the 450 tonnes of lead were sold for cash at the spot price on that date.

The following shows the price movements of lead per tonne:

Date	Spot price per tonne (\$)	Future price per tonne (\$) for settlement on 31 March 20x8
1 January 20x8	3,535	3,545
31 January 20x8	3,595	3,600
28 February 20x8	3,436	3,438
31 March 20x8	3,390	3,390

Ignore (i) the margin deposit on futures contract, (ii) time value of money, as it is not expected to be significant, and (iii) tax effects, if any, arising from the above transactions.

Assume that Nobel adopts a perpetual inventory system and Singapore Financial Reporting Standard (International) (SFRS(I)) 9 *Financial Instruments* for financial reporting purposes, and that all criteria for hedge accounting are met under SFRS(I) 9.

**Exemplify
Question
Number**

Question 2 Part I required:

3

- (a)** Prepare the journal entries for Nobel to record the events and transactions as at 31 January 20x8, 28 February 20x8 and 31 March 20x8 in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 9 *Financial Instruments*. Indicate clearly in your answer if the fair value changes in the hedging instrument and hedged item are to be recognised as a profit, a loss, or other comprehensive income item. **(18 marks)**

Part II

On 1 January 20x9, Nobel acquired 100% of the issued share capital of Big Apple Pte Ltd (Big Apple), a company incorporated in United States of America, with US dollars (US\$) as its functional and presentation currency. The net assets of Big Apple at the beginning of the financial year on 1 January 20x9 was US\$5,000,000.

The functional and presentation currency of Nobel is in Singapore Dollars (SGD). Nobel would like to hedge the foreign exchange risk arising from the translation of Big Apple's beginning net assets by entering into a forward foreign exchange contract at the beginning of the year to sell US\$5,000,000 at 31 December 20x9.

**Exemplify
Question
Number**

4

Question 2 Part II required:

- (a)** Briefly explain how the hedge of the investment in Big Apple should be accounted for by Nobel in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 9 *Financial Instruments*. Describe how (i) the gain or loss on the forward foreign exchange contract and (ii) the translation gain or loss on beginning net assets of Big Apple would be recorded in both the separate financial statements of Nobel and its consolidated group financial statements for the financial year ended 31 December 20x9.

(4 marks)

(Total: 22 marks)

Question 3 – Part I and Part II

Part I

Zinnia Pte Ltd (Zinnia) is a local wholesaler of garment. It is 100% owned by Yucca Ltd (Yucca), an investment holding company, which is listed on the Singapore Exchange.

Zinnia owned 70% of the shareholding in Xanthium Pte Ltd (Xanthium), a garment manufacturing company and 35% of the shares in Willow Pte Ltd (Willow), a retailer of fashion garments and accessories.

Vector Soh, the Chief Financial Officer (CFO) of Zinnia, also acts as the independent director of Tussac Ltd (Tussac), a listed company providing logistics services. His wife, Unice, also owned 5% of the shares in Tussac.

During the financial year ended 31 December 20x8 the following events occurred:

- Zinnia paid Vector his annual salary, year-end bonus and employer Central Provident Fund (CPF) contributions.
- Zinnia purchased manufactured garments from Xanthium.
- Zinnia sold its garment inventories to Willow Pte Ltd in January 20x8. As at 31 December 20x8, none of the long outstanding balance due from Willow Pte Ltd for the transaction was received by Zinnia.
- Tussac provided air-freight delivery services to Zinnia's overseas customers.
- Yucca provided Zinnia with management and administrative services and charged Zinnia a monthly management fee for these services.

The shares held in these 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% gives rise to significant influence.

**Exemplify
Question
Number**

Question 3 Part I required:

For the financial year ended 31 December 20x8:

5

(a) Explain if the following companies and individuals are related parties of Zinnia Pte Ltd.

(i) Vector, the Chief Financial Officer of Zinnia Pte Ltd;

(ii) Unice, Vector's wife;

(iii) Yucca Ltd;

(iv) Xanthium Pte Ltd;

(v) Willow Pte Ltd; and

(vi) Tussac Ltd

(6 marks)

6

(b) State the information and relationships that Zinnia Pte Ltd needs to disclose under Singapore Financial Reporting Standard (SFRS(I)) 1-24 *Related Party Disclosures* in its financial statements for the year ended 31 December 20x8. **(6 marks)**

Part II

For the past two years, the business performance of Tussac Ltd had been poor and the company was in financial distress due to its inability to repay its suppliers and bank loans.

Since the beginning of financial year ended 31 December 20x9, Vector, in his capacity as the CFO of Zinnia, requested the Finance Manager to initiate monthly fund transfers, amounting to a total of \$4 million to Tussac and he was the sole approver of these transactions. Furthermore, he also requested the Accountant, a member of Institute of Singapore Chartered Accountants, to record these transactions as investment in Tussac in Zinnia's accounts.

Over time, the Accountant grew doubtful of the rationale of Zinnia's investment in Tussac, as Tussac's operational performance was deteriorating and the industry outlook was poor. When the Accountant checked with the Finance Manager the rationale of making such investments, her queries remained unanswered. She took the chance to clarify the same issue with Vector during the mid-year appraisal review.

Vector told her, "You have been with us for the past few years, and we believed in your potential to take on bigger roles. If you would stop asking so many questions and focus on your work, I guess you would have been ready to be promoted to Assistant Finance Manager by the end of the year. Else, you may find it hard to progress for the next few years."

**Exemplify
Question
Number**

Question 3 Part II required:

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

- 7** **(a)** Identify ONE fundamental principle which is being threatened from the perspective of the Accountant. **(3 marks)**
- 8** **(b)** Describe ONE threat that could compromise, or be perceived to compromise, the Accountant's compliance with the fundamental principle identified in (a) above. **(3 marks)**
- 9** **(c)** Recommend ONE appropriate action that the Accountant could take to eliminate or reduce the threat to the fundamental principle identified in (b) above. **(2 marks)**
- (Total: 20 marks)**

Question 4 – (a) and (b)

On 1 January 20x3, Anchor Ltd (Anchor), which has a 31 December financial year end, granted 200 Share Appreciation Rights (SARs) to each of its top 50 sales employees.

Half of the SARs would vest conditional upon the employee working for the company until 31 December 20x4, and they would be forfeited if the employee leaves the company during the service period of two years. The other half of the SARs would vest conditional upon the employee working for the company until 31 December 20x5, and they would be forfeited if the employee leaves the company during the service period of three years.

All the vested SARs will expire after four years from the grant date if not exercised. The estimated fair value of each SAR on the following dates is as follows:

	Fair Value of SAR with vesting date on 31 December 20x4 (\$)	Fair Value of SAR with vesting date on 31 December 20x5 (\$)
31 December 20x3	5.40	5.70
31 December 20x4	6.50	7.20
31 December 20x5	9.20	9.90

- Out of the 50 employees, 5 of them left in 20x3. On 31 December 20x3, it was estimated that 5 more employees would leave the company in 20x4 and a further 5 employees would leave in 20x5.
- Out of the remaining employees, 8 of them left in 20x4. On 31 December 20x4, it was estimated that 8 more employees would leave the company in 20x5, i.e. 29 out of 50 employees were estimated to remain in the company as at 31 December 20x5.

- No employee resigned in 20x5. On 31 December 20x5, when the intrinsic value of each SAR (which is equal to the cash paid out) was \$8.50, all the SARs which vested on 31 December 20x4 were exercised by the employees.

On 31 December 20x6, when the intrinsic value of each SAR was \$12, all the remaining vested SARs were exercised.

**Exemplify
Question
Number**

Question 4 required:

10

- (a)** Identify whether the above share-based payment plan is an equity-settled share-based payment transaction or a cash-settled share-based payment transaction. Briefly explain your reason. **(3 marks)**

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- (b)** Prepare the journal entries for the financial years ended 31 December 20x3 to 20x6. Ignore the tax effect, if any.

(17 marks)

(Total: 20 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.
Perform	Carry out a specific function or test in a prescribed manner.
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 ...". Remember, a journal entry is only complete if it shows the date of the entry, the correct accounts, the correct amounts, and has a description (narration) – easy marks are often thrown away through carelessness.
Propose/ Provide	Put forward (for example, a point of view, idea, argument, alternatives, etc.) for consideration or action. For instance, "Based on the facts of the case, propose the most tax-effective entity type ...", or " Propose audit adjusting entries to correct ...".
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.
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.