SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Principles of Financial Reporting (PFF)

EXAMINATION DATE: 10 December 2018

Section 1

General comments

For this examination, unless specified otherwise, Candidates were to assume that all 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.

December 2018 exam session was the first time Candidates used e-Exam software, with each of them recording their answers using their personal laptop (in full lockdown mode – no internet/network connectivity or hard drive access) instead of traditional pen and paper. Notwithstanding the use of laptops, all SCAQ Foundation Module examinations continue to be a restricted open-book format with Candidates being able to bring in a double-sided A4 page of personal notes for reference.

The overall performance for the December 2018 sitting was satisfactory and Candidates were generally adequately prepared.

The majority of the Candidates performed reasonably well for the question relating to the preparation of the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position in accordance with SFRS(I) 1-1 *Presentation of Financial Statements*. However, the second question, which tested Candidates on financial instruments, was poorly attempted in general - many Candidates were not fully aware of the new classifications under SFRS(I) 9 *Financial Instruments* (as stated in the question) and were still applying the old standard i.e. SFRS 39 *Financial Instruments: Recognition and Measurement* (issued as at 1 January 2017).

Most Candidates were able to account for the initial cost of plant and equipment, but many Candidates struggled to handle the accounting for lease - especially the computation and presentation of the current and non-current portions of the finance lease liabilities. While many Candidates were able to account for warranties and describe the stakeholders who may be interested in general purpose financial statements, the accounting for the transfer of the factory from property, plant and equipment to investment property seemed to be a challenge for some Candidates.

To do well for this module, Candidates should utilise the Study Guide published on the SAC website (www.sac.gov.sg) to read and do exercises from the suggested textbooks listed in the Study Guide, and read the accounting standards. Many SFRS(I) have guidance notes and illustrative examples available from the Accounting Standards Council website (www.asc.gov.sg). Candidates are strongly encouraged to use these documents as an additional practice resource. This will build their foundation on the topics covered in this module.

Section 2
Analysis of individual questions

Question 1

Overall, Candidates did well for Question 1 by demonstrating competence in preparing financial statements for a stand-alone entity in the appropriate format. This question tested Candidates on the concepts and application of SFRS(I) 1-1 *Presentation of Financial Statements*.

With regard to the Statement of Profit or Loss and Other Comprehensive Income in **Part (a)**, some Candidates did not allocate specific expenses identified in the case (namely depreciation and staff salaries) to "cost of sales", "distribution" and "administrative" costs. Many Candidates did not present "Other comprehensive income" and "Profit and total comprehensive income" line items. Errors were also made in the computation of the income tax expense.

For **Part (b),** Candidates were generally able to present the Statement of Financial Position in an appropriate format, though some Candidates presented the various classes of property, plant and equipment separately on the face of the Statement of Financial Position, which is not in accordance with SFRS(I) 1-1.

Other errors commonly made by Candidates include:

- Sales returns not deducted from sales revenue;
- Freight inwards not included as part of cost of sales;
- Closing inventory not stated at the net realisable value, which was lower than cost;
- Deferred tax liability presented as a current liability instead of a non-current liability;
- Interim dividend paid was not deducted when computing retained earnings; and
- Borrowings were not presented separately between amount due within 12 months (current liability) and amount due after 12 months (non-current liability).

Question 2

This question, testing Candidates on accounting for financial instruments, was generally poorly attempted.

For **Part (a),** it appears that Candidates were not aware of the new financial instrument standard i.e. SFRS(I) 9 *Financial Instruments*, as they were still using terms like available-for-sale financial assets and held-to-maturity investments. These terms were relevant under the old standard i.e. SFRS 39 *Financial Instruments: Recognition and Measurement* (issued as at 1 January 2017).

While most Candidates were able to prepare basic journal entries relating to the initial investment in corporate bonds and shares (including accounting for transaction costs), a handful of Candidates were not able to apply the amortised cost concept and compute the interest income correctly. It should be reiterated that Candidates are required to include an appropriate narration whenever a journal entry is prepared. Narrations are an essential part of the audit trail. A journal is not complete if there is no narration. Many Candidates missed easy marks because of this oversight.

Question 3

A majority of the Candidates did well for **Part (a)** of **Case A**, which required them to compute the initial cost to be recorded as plant and equipment. However, the following were common errors made when computing the initial cost of the new bakery machine and heavy-duty dough mixer:

- Goods and Services Tax (GST) paid was erroneously included;
- Incorrect exchange rates were used for the various foreign currency transactions;
- Erroneously including maintenance and replacement charge; and
- Wrongly calculating the present value of the dismantling and removal costs.

Candidates also did well for **Part (b)** of **Case A**, demonstrating their ability to outline the circumstances under which plant and machinery should be tested for impairment.

For **Case B**, Candidates were generally able to compute the present value of the future minimum lease payments and interest costs correctly. However, a few Candidates computed depreciation using the lease term, which was incorrect because there was reasonable certainty (as noted in the case) that the lessee would obtain ownership of the asset.

Many Candidates presented the current and non-current lease liability incorrectly. This is likely because they did not understand the amortisation table. It should also be highlighted that the new lease standard i.e. SFRS (I) *Leases* will be examinable from 1 January 2019 onwards.

Question 4

This question covered several topics, including provisions, income tax, investment property and the qualitative characteristics of financial statements.

For **Parts (a)** and **(b)**, most Candidates were able to compute the provision for warranties and account for the deferred tax asset arising from such an adjustment.

While most Candidates were able to prepare journal entries relating to the revaluation of property, plant and equipment (PPE) and investment property in **Part (c),** some Candidates were not able to correctly account for the transfer of the factory from PPE to investment property.

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For **Part (d)**, almost all Candidates were able to describe the types of stakeholders that may be interested in general purpose financial statements. But fewer Candidates were unable to articulate how the use of fair value made financial statements more relevant but less verifiable.