FP

Chartered Accountant SINGAPORE

Singapore CA Qualification (Foundation) Examination

10 December 2018

Principles of 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 **SIXTEEN (16)** pages (including this instruction sheet, Appendix A, and Appendix B). 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 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 2018.

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS SINGAPORE ACCOUNTANCY COMMISSION

Question 1 – (a) and (b)

TZT Asia Pte Ltd (TZT) is a wholesaler of coffee machines. The following is an unadjusted trial balance as at 31 December 20x7 (TZT's financial year-end date).

	Dr ($)	Cr ($)
Ordinary share capital		350,000
Retained earnings as at 1 Jan 20x7		104,200
Accounts payable		131,400
Deferred tax liability		2,000
Bank loan		280,000
Plant and machinery at cost	290,000	
Accumulated depreciation (plant and machinery)		116,000
Delivery vehicles at cost	210,500	
Accumulated depreciation (delivery vehicles)		84,200
Accounts receivable	330,900	
Cash at bank	189,400	
Cash on hand	29,600	
Inventory as at 1 Jan 20x7	151,100	
Sales		880,600
Dividends received from quoted shares		7,600
Purchases	230,100	
Administrative expenses	40,700	
Staff salaries	270,800	
Distribution costs	30,900	
Returns inwards	13,400	
Returns outwards		32,700
Freight inwards	80,200	
Directors' fees	60,000	
Interim dividend paid	38,700	
Interest paid	22,400	
	1,988,700	**1,988,700**

The following transactions and events have not been recorded in TZT's books as at 31 December 20x7. Please refer to item (1) below for tax effects, if any, associated with the subsequent transactions and events.

(1) After considering all relevant tax implications including the below-mentioned transactions, TZT's tax agent has advised you that the estimated current tax payable to the Inland Revenue Authority of Singapore (IRAS) for the financial year ended 31 December 20x7 is $19,100. In addition, you have been informed that the deferred tax liability is approximately $5,900. You may assume the tax agent's advice to be appropriate.

(2) The company's policy is to depreciate its assets using the reducing-balance method at the end of each year based on the following rates:

a. Plant and machinery = 20%
b. Delivery vehicles = 10%

75% of the depreciation charge should be allocated to cost of sales and the remainder to distribution costs.

(3) The carrying amount of closing inventory is $125,800. Based on management's assessment, the estimated selling price, and the costs necessary to make the sales is $126,100 and $2,600 respectively.

(4) Administrative expenses include $4,200 paid for business interruption insurance coverage from 1 April 20x7 to 31 March 20x8.

(5) In relation to the bank loan, it was discovered that interest of $1,500 was paid in mid-January 20x8, which related to the financial year ended 31 December 20x7 and was not accrued. In addition, you noted from the bank loan repayment schedule that $60,000 is repayable during 20x8 and the remaining $220,000 is due during 20x9.

(6) TZT employs an average of ten staff, 60% of whom work in the production operations department, 30% in the distribution department, and the remainder in the accounts department.

(7) Sometime in November 20x7, a customer sued TZT for allegedly supplying faulty coffee machines which resulted in injuries to the customer's employees. As at 31 December 20x7, the suit was still ongoing and TZT's solicitor is of the view that the chance the customer's claim for $28,000 will succeed is more likely than not. Any financial impact should be accounted for as administrative expenses.

Examplify Question Number	
	Question 1 required:
	In accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 1-1 *Presentation of Financial Statements*:
1	**(a)** Prepare the Statement of Profit or Loss and Other Comprehensive Income for TZT Asia Pte Ltd for the year ended 31 December 20x7. In your answer, present expenses by function. Show all necessary workings. **(15 marks)**
2	**(b)** Prepare the Statement of Financial Position for TZT Asia Pte Ltd as at 31 December 20x7. Show all necessary workings. **(12 marks)** **(Total: 27 marks)**

Question 2 – (a) and (b)

Alpha Returns Pte Ltd (Alpha), an investment holding company incorporated in Singapore, entered into the following transactions during the financial years ended 31 December 20x8 and 20x9:

(i) Invested $250,000 in a zero-coupon corporate bond on 1 January 20x8. This bond matures in five years and has a face value of $300,000. The effective interest rate is 3.71% per year. Management intends to hold this financial asset to maturity.

(ii) On 10 April 20x8, Alpha invested in 65,000 shares in SubTel Ltd at $3.30 per share. The brokerage fees incurred on the purchase of the said shares was $150.00. The share price on 31 December 20x8 was $3.80 per share. A dividend of $0.17 per share was approved on 3 March 20x9 and received on 1 April 20x9. All SubTel shares were subsequently disposed of by Alpha on 8 July 20x9 for $4.10 per share and brokerage fees incurred was $170.00. These shares were held for trading.

Examplify Question Number	**Question 2 required:**
3	**(a)** In accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 9 *Financial Instruments,* explain how debt instruments in general should be accounted for. **(6 marks)**
4	**(b)** Record the journal entries for the financial years ended 31 December 20x8 and 20x9 for all events listed in (i) and (ii) in the case. Ignore the effects of income tax arising from these transactions and events, and show all necessary workings.

Present your journals in the following format:

Transaction date

DR Account Name 100

CR Account Name 100

(Narration or journal title)

(17 marks)

(Total: 23 marks)

Question 3 – Case A and Case B

Case A

Prop Leisure Pte Ltd (Prop) is a manufacturer of speciality croissants and is a Goods and Services Tax (GST)-registered business operating in Singapore. During the year ended 30 June 20x7, it entered into the following transactions relating to the purchase of certain equipment:

- Overseas supplier rendered an invoice of United States dollars (US$) 80,000 (excluding 7% GST) dated 4 February 20x7 for a new bakery machine. GST levied by Singapore Customs for this invoice was S$7,168. This invoice was settled in full on 15 March 20x7.

- Local delivery charge of S$2,675 (including 7% GST).

- Installation costs of S$5,350 (including 7% GST).

- Maintenance charge of S$3,800 (excluding 7% GST).

- Overseas supplier rendered an invoice of US$12,000 (excluding 7% GST) on 1 May 20x7 for a heavy-duty dough mixer, which is necessary for Prop to manufacture its speciality croissants. GST levied by Singapore Customs for this invoice was S$1,088. This invoice remained unsettled as at 30 June 20x7.

- Replacement parts of S$8,500 (excluding 7% GST) was incurred.

The new bakery machine complete with the heavy-duty dough mixer was ready for use on 20 May 20x7.

At the end of the five-year useful life of the new bakery machine and dough mixer, the salvage value is expected to be minimal, but the cost of dismantling and removing it is estimated to be S$6,500 (before GST). A discount rate of 5% per year should be used to consider the impact of time value of money.

Prop's functional currency is the Singapore dollar (S$) and the historical foreign exchange rates are shown below.

Dates	***US$1 : S$***
4 February 20x7	1.2805
15 March 20x7	1.3010
20 May 20x7	1.2950
30 June 20x7	1.3295
Average for 20x7	1.3022

Ignore effects of income tax arising from these transactions and events.

Refer to **Appendix B** for Future Value and Present Value tables, if required.

Examplify Question Number	Question 3 Case A required:
5	**(a)** In accordance with Singapore Financial Reporting Standards (International) (SFRS(I)) 1-16 *Property, Plant, and Equipment* and SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*, calculate the Singapore dollar value of the new bakery machine and heavy-duty dough mixer that should be initially recorded as plant and equipment in the Statement of Financial Position of Prop Leisure Pte Ltd. Justify your answer if an item is excluded from the initial cost of the non-current asset. **(9 marks)**
	The bakery machine and heavy-duty dough mixer have now been in use for two years.
6	**(b)** Outline FIVE circumstances under which an impairment test would be required for the bakery machine and heavy-duty dough mixer under Singapore Financial Reporting Standard (International) (SFRS(I)) 1-36 *Impairment of Assets*. **(5 marks)**

Case B

To automate its business, Rotor Blade Pte Ltd (Rotor) leased a piece of industrial packaging equipment, which has a useful life of five years, in early July 20x6 with the following lease terms:

- Term of lease is four years;
- Annual payments of $25,000 in arrears;
- Interest rate implicit in the lease is 6% per annum; and
- Rotor has the option to purchase the industrial packaging equipment for $1 at the end of the lease term.

The company depreciates all its non-current assets using the straight-line method and accounts for one full month's depreciation in the first month of use. The company's financial year-end is 30 June. Ignore the effects of income tax, if any, arising from these transactions and events.

You may assume that the lease is correctly classified as a finance lease.

Refer to **Appendix B** for Future Value and Present Value tables, if required.

Examplify Question Number	**Question 3 Case B required:**
7	**(a)** In accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 1-17 *Leases,* prepare extracts of the Statement of Comprehensive Income and the Statement of Financial Position for Rotor Blade Pte Ltd for the financial years ending 30 June 20x7 and 20x8 relating to the industrial packaging machine. Show all necessary workings and present your answer to the nearest whole dollar. **(11 marks)**
	(Total: 25 marks)

Question 4 – (a), (b), (c), and (d)

You are the accountant for Orchard Trading Ltd (Orchard). The newly appointed Managing Director would like your advice on the accounting treatment for the following issues for the financial year ended 31 December 20x7:

Issue 1 – Warranties

All gardening products sold by Orchard come with a 12-month warranty from the date of sale. As of 31 December 20x7, 720 products sold were still under warranty. Based on experience, there is an 80% probability that no defects will occur. However, when a defect occurs, half the time it is a minor defect that costs Orchard $150 to repair, while a major defect costs $400 to rectify. The warranties still current as at 31 December 20x7 have not been accounted for in Orchard's books. Such expenses are tax-deductible on a cash basis. The corporate tax rate is 17% and deferred tax effects have not been recorded.

Issue 2 – Leasehold factory

A leasehold factory located at Tuas South was purchased several years ago. The net book value as at 30 September 20x7 was $405,000. However, the Managing Director mentioned that since 1 October 20x7, Orchard has relocated its manufacturing operations to Jurong West Industrial Park. Management has refurbished the Tuas South factory and secured a tenant. Orchard has received rental income of $12,000 for the month of December 20x7. The fair value of the property as at 1 October 20x7 and 31 December 20x7 was $840,000 and $875,000 respectively. These transactions and events have not been accounted for in the books of Orchard.

Examplify Question Number	Question 4 required:
8	**(a)** Compute the provision for warranties for *Issue 1* in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 1-37 *Provisions, Contingent Liabilities, and Contingent Assets*. Show all necessary workings and present your answer to the nearest whole dollar. **(5 marks)**
9	**(b)** Record the journal entries for (a) above (provision for warranties) for the financial year ended 31 December 20x7 in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)) 1-12 *Income Taxes* and SFRS(I) 1-37 *Provisions, Contingent Liabilities, and Contingent Assets*. Show all necessary workings and present your answer to the nearest whole dollar.

Present your journals in the following format:

Transaction date

DR Account Name 100

CR Account Name 100

(Narration or journal title)

(4 marks)

Examplify Question Number

10

(c) Record the journal entries in respect of *Issue 2* (leasehold factory) for the financial year ended 31 December 20x7 in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 1-40 *Investment Property*. Assume Orchard Trading Ltd uses the fair value model to measure investment properties. Ignore the effects of income tax arising from the transactions and events listed in *Issue 2*.

> *Present your journals in the following format:*
>
> Transaction date
>
> DR Account Name 100
>
> CR Account Name 100
>
> (Narration or journal title)

(7 marks)

Examplify Question Number	
	Even after reading how the *Conceptual Framework* sets out the concepts that underlie the preparation and presentation of General Purpose Financial Statements for external users, the new Managing Director is unable to comprehend the need for Orchard Trading Ltd to prepare financial statements every year and does not understand why more items in the accounts require the use of fair value accounting.
11	**(d)** The new Managing Director has asked you to:
	(i) Describe THREE stakeholders who may be interested in General Purpose Financial Statements (GPFS). **(6 marks)**
	(ii) Outline how the use of fair value affects the fundamental and/or enhancing qualitative characteristics of the financial statements. **(3 marks)**
	(Total: 25 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**.
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.
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**.
Outline	**Outline** requires you to provide a general overview of the situation and indicate the main features.
Prepare / Present	**Prepare** (or **present)** requires you to produce your answer using a specific format. For instance, "**Prepare** all the relevant journal entries for …". Remember, a journal 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.
Record	**Record** is similar to **prepare** in that you may need to perform a calculation and show the specific components in an appropriate format.

Appendix B - Future Value and Present Value Tables – End of Period Rates

Present value interest factor of $1 per period at i% for n periods, PVIF(i,n)										
n	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091
2	0.9803	0.9612	0.9426	0.9246	0.9070	0.8900	0.8734	0.8573	0.8417	0.8264
3	0.9706	0.9423	0.9151	0.8890	0.8638	0.8396	0.8163	0.7938	0.7722	0.7513
4	0.9610	0.9238	0.8885	0.8548	0.8227	0.7921	0.7629	0.7350	0.7084	0.6830
5	0.9515	0.9057	0.8626	0.8219	0.7835	0.7473	0.7130	0.6806	0.6499	0.6209
6	0.9420	0.8880	0.8375	0.7903	0.7462	0.7050	0.6663	0.6302	0.5963	0.5645
7	0.9327	0.8706	0.8131	0.7599	0.7107	0.6651	0.6227	0.5835	0.5470	0.5132
8	0.9235	0.8535	0.7894	0.7307	0.6768	0.6274	0.5820	0.5403	0.5019	0.4665
9	0.9143	0.8368	0.7664	0.7026	0.6446	0.5919	0.5439	0.5002	0.4604	0.4241

Future value interest factor of $1 per period at i% for n periods, FVIF(i,n)										
n	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	1.0100	1.0200	1.0300	1.0400	1.0500	1.0600	1.0700	1.0800	1.0900	1.1000
2	1.0201	1.0404	1.0609	1.0816	1.1025	1.1236	1.1449	1.1664	1.1881	1.2100
3	1.0303	1.0612	1.0927	1.1249	1.1576	1.1910	1.2250	1.2597	1.2950	1.3310
4	1.0406	1.0824	1.1255	1.1699	1.2155	1.2625	1.3108	1.3605	1.4116	1.4641
5	1.0510	1.1041	1.1593	1.2167	1.2763	1.3382	1.4026	1.4693	1.5386	1.6105
6	1.0615	1.1262	1.1941	1.2653	1.3401	1.4185	1.5007	1.5869	1.6771	1.7716
7	1.0721	1.1487	1.2299	1.3159	1.4071	1.5036	1.6058	1.7138	1.8280	1.9487
8	1.0829	1.1717	1.2668	1.3686	1.4775	1.5938	1.7182	1.8509	1.9926	2.1436
9	1.0937	1.1951	1.3048	1.4233	1.5513	1.6895	1.8385	1.9990	2.1719	2.3579

Present value interest factor of an ordinary annuity of $1 per period at i% for n periods, PVIFA(i,n)										
n	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091
2	1.9704	1.9416	1.9135	1.8861	1.8594	1.8334	1.8080	1.7833	1.7591	1.7355
3	2.9410	2.8839	2.8286	2.7751	2.7232	2.6730	2.6243	2.5771	2.5313	2.4869
4	3.9020	3.8077	3.7171	3.6299	3.5460	3.4651	3.3872	3.3121	3.2397	3.1699
5	4.8534	4.7135	4.5797	4.4518	4.3295	4.2124	4.1002	3.9927	3.8897	3.7908
6	5.7955	5.6014	5.4172	5.2421	5.0757	4.9173	4.7665	4.6229	4.4859	4.3553
7	6.7282	6.4720	6.2303	6.0021	5.7864	5.5824	5.3893	5.2064	5.0330	4.8684
8	7.6517	7.3255	7.0197	6.7327	6.4632	6.2098	5.9713	5.7466	5.5348	5.3349
9	8.5660	8.1622	7.7861	7.4353	7.1078	6.8017	6.5152	6.2469	5.9952	5.7590

Future value interest factor of an ordinary annuity of $1 per period at i% for n periods, FVIFA(i,n)										
n	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
2	2.0100	2.0200	2.0300	2.0400	2.0500	2.0600	2.0700	2.0800	2.0900	2.1000
3	3.0301	3.0604	3.0909	3.1216	3.1525	3.1836	3.2149	3.2464	3.2781	3.3100
4	4.0604	4.1216	4.1836	4.2465	4.3101	4.3746	4.4399	4.5061	4.5731	4.6410
5	5.1010	5.2040	5.3091	5.4163	5.5256	5.6371	5.7507	5.8666	5.9847	6.1051
6	6.1520	6.3081	6.4684	6.6330	6.8019	6.9753	7.1533	7.3359	7.5233	7.7156
7	7.2135	7.4343	7.6625	7.8983	8.1420	8.3938	8.6540	8.9228	9.2004	9.4872
8	8.2857	8.5830	8.8923	9.2142	9.5491	9.8975	10.2598	10.6366	11.0285	11.4359
9	9.3685	9.7546	10.1591	10.5828	11.0266	11.4913	11.9780	12.4876	13.0210	13.5795