



Singapore CA Qualification (Foundation) Examination 11 December 2019 Principles of Financial Reporting

INSTRUCTIONS TO CANDIDATES:

- 1. The time allowed for this examination paper is **3 hours 15 minutes**.
- This examination paper has FOUR (4) questions and comprises FOURTEEN (14) 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 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 or journal title)





Question 1 – (a) and (b)

Mavyers Pte Ltd is a wholesaler of fast-moving consumer goods. The following is its unadjusted trial balance for the financial year ended 31 December 20x8 (FY 20x8):

	Dr	<u>Cr</u>
	<u>(S\$'000)</u>	<u>(S\$'000)</u>
Sales		2,224
Sales returns	103	
Purchases	712	
Purchase returns		58
Discounts given	21	
Discounts received		10
Carriage inwards	31	
Carriage outwards	66	
Rent	260	
Wages and salaries	380	
Directors' remuneration	84	
Administrative costs	25	
Selling costs	49	
Interest paid	42	
Cash on hand	9	
Bank balance	158	
Fixed deposit	200	
Inventory as at 1 January 20x8	147	
Trade receivables	372	
Trade payables		208
Bank overdraft		85
Term loan		420
Freehold land	388	
Plant and machinery (cost)	450	
Plant and machinery (accumulated depreciation)		210
Motor vehicles (cost)	230	

Motor vehicles (accumulated depreciation)		130
Share capital		300
Retained earnings as at 1 January 20x8		82
	3,727	3,727

The following information relates to FY 20x8, for which no adjustment has been made, if required.

- (1) Inventory as at 31 December 20x8 based on the inventory records was S\$203,000. After a physical stocktake was done, inventory with a carrying amount of S\$14,000 was discovered to be damaged and its net realisable value was estimated to be only S\$2,000.
- (2) Depreciation charge for all non-current assets is calculated using the reducing balance method based on 20%. The amount relating to plant and machinery is fully allocated to cost of sales, and motor vehicles fully allocated to selling and distribution expenses.
- (3) The recorded rent of S\$260,000 includes S\$20,000 that has been paid for the month of January 20x9 and allocated on the same basis as point (4) below.

		Selling and	Administrative
	Cost of sales	distribution	and other
		expenses	expenses
Rent	80%	10%	10%
Wages and salaries	65%	20%	15%
Directors'	-	-	100%
remuneration			

(4) The following expenses should be allocated as follows:

- (5) Interest amounting S\$8,000 paid and recorded on 10 January 20x9 relates to FY 20x8. The recorded bank overdraft of S\$85,000 is repayable within 30 days from 31 December 20x8 whereas the recorded term loan of S\$420,000 matures on 1 April 20y2.
- (6) The recorded fixed deposit of S\$200,000, placed with a local bank on 1 April 20x8 for a tenor of 12 months, represents the principal amount. Interest is 2% per annum and this has not been recorded in the books yet.
- (7) The tax agent has estimated current income tax to be S\$75,000 and deferred tax liabilities to be S\$18,000 as at 31 December 20x8. These have not been recorded yet.
- (8) The recorded freehold land of S\$388,000 was purchased during FY 20x8 with the intention of holding it for capital appreciation. Management has decided to adopt the fair value model. The fair value as at 31 December 20x8 was appraised by an independent property valuer to be S\$405,000.

Examplify Question 1 required: Question

- (a) Prepare the Statement of Profit or Loss and Other Comprehensive Income (presented as a single statement and using a classification based on function) for Mavyers Pte Ltd for the financial year ended 31 December 20x8 in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 1-1 Presentation of Financial Statements. Show all necessary workings. (17 marks)
 - (b) Prepare the Statement of Financial Position for Mavyers Pte Ltd as at 31 December 20x8 in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 1-1 *Presentation of Financial Statements*. Show all necessary workings.

(Total: 30 marks)

Number

1

Question 2 - (a), (b) and (c)

On the first day of the current financial year i.e. 1 April 20x9, Simply Deliver Pte Ltd (Simply Deliver) entered into an agreement to rent several trucks. Annual payments are S\$20,000, payable at the end of each financial year, for five years (i.e. 31 March 20y0 to 31 March 20y4) and the agreement is non-cancellable. Legal fees of S\$5,000 was incurred and paid by Simply Deliver upfront in connection with drafting and finalising this agreement. Depreciation is calculated using the straight-line method over the estimated useful life of 5 years.

Simply Deliver's incremental borrowing rate is 7% per annum and similar non-current assets are depreciated using the straight-line method.

Depreciation expense is not allowed for income tax purposes. Instead, Simply Deliver is able to claim capital allowance for capital expenditure incurred, which is computed as qualifying costs divided by three years. Corporate tax rate is 17% and the current income tax for the financial year ended 31 March 20y0 of S\$82,000 has not yet been recorded.

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

Examplify Question 2 required: Question Number

3

4

5

- (a) Record the journal entries from 1 April 20x9 to 31 March 20y1 in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)) 16 *Leases* and SFRS(I) 1-16 *Property, Plant and Equipment*. For this part, you are not required to include any journal entries relating to deferred tax asset/liability. Show all necessary workings. (16 marks)
 - (b) Calculate the deferred tax asset/liability and show the journal entry to record the deferred tax asset/liability for the financial year ended 31 March 20y0 in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)) 1-12 *Income Taxes.* Show all necessary workings.

(7 marks)

(c) Identify two situations, giving one example for each situation, where Singapore Financial Reporting Standards (International) (SFRS(I)) 16 Leases need not be applied.

> (4 marks) (Total: 27 marks)

Question 3 - (a), (b) and (c)

Issue 1

Under the Companies Act (Chapter 50), directors of Alpha Pte Ltd are responsible to present and lay before the company, at its annual general meeting, financial statements that comply with accounting standards issued by the Accounting Standards Council and give a true and fair view of the financial position and performance of the company.

Issue 2

The financial statements of Beta Pte Ltd for the financial year ended 30 June 20x9 (FY 20x9) have been prepared and will be authorised for issue at the forthcoming Board meeting scheduled on 1 September 20x9.

On 3 August 20x9, it was brought to the accountant's attention that a material amount of inventory was misappropriated during April 20x9 and this fraud was not reflected in the FY 20x9 financial statements.

At the Board meeting held on 1 September 20x9, the directors proposed that a final dividend of S\$250,000 be declared in respect of financial year ended 30 June 20x9 and the financial statements were authorised for issue. The proposed dividend was subsequently approved at the annual general meeting held on 7 October 20x9.

Issue 3

Charlie Pte Ltd has, over the last several years, adopted the cost model to account for its investment properties. For the financial year ended 31 December 20x2 (FY 20x2), management decides to adopt the fair value model because it will result in a more appropriate presentation.

During FY 20x2, it was discovered that some electronic products that were sold during 20x1 were incorrectly included in the inventory balance. Management has ascertained the amount to be material.

Note: Each of the above issues are independent and should be dealt with individually.

Examplify Question Number	Question 3 required:					
6	(a)	For Issue 1, describe the objectives and the primary users of Alpha Pte Ltd's general-purpose financial statements. (4 marks)				
7	(b)	Explain how (i) the inventory misappropriation and (ii) dividends relating to Issue 2 should be dealt with for the financial year ended 30 June 20x9 in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 1-10 <i>Events After</i> <i>the Reporting Period.</i> (6 marks)				
8	(c)	Outline how the events relating to Issue 3 should be dealt with for the year ended 31 December 20x2 in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 1-8 Accounting Policies, Changes in Accounting Estimates and Errors. (8 marks) (Total: 18 marks)				

Question 4 – (a)

On 18 March 20y0, Softech Pte Ltd (Softech), a Goods and Services Tax (GST) registered company with a financial year end of 31 December, entered into a contract with a local customer to sell a warehouse management software license and provide 24/7 technical support services over the next three years. Softech's functional currency is Singapore dollars (S\$).

The total transaction price is S\$135,000 (before GST), which comprises (1) an upfront payment of S\$15,000 when the software is installed and (2) the balance payable split equally into two annual payments from installation date. The software was installed on 1 April 20y0 and ready for use.

Softech regularly sells the warehouse management software for S\$50,000 (before GST) on a standalone basis. It usually charges its customers S\$3,500 per month (before GST) for 24/7 technical support services.

On 5 July 20y0, Softech purchased 12,000 shares of Macrohard Inc., a company listed on NASDAQ for US dollars (US\$) 126,000 and incurred commission and brokerage costs amounting S\$650. The last traded prices on 31 December 20y0 and 31 December 20y1 were US\$11.90 and US\$10.20 respectively.

Date	US\$ 1 to S\$
18 March 20y0	1.318
1 April 20y0	1.304
5 July 20y0	1.350
31 December 20y0	1.370
31 December 20y1	1.394

Exchange rates:

The investment in Macrohard Inc. is not held for trading and management wishes to make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income.

Revaluation of foreign currency items and revenue recognition of services over time occurs <u>at the end of each financial year</u>. Assume the effect of time value of money is immaterial. Ignore effects of income tax arising from these transactions and events. The prevailing GST rate is 7%.

For percentages (%), round to two decimal places. For S\$ and US\$, round to the nearest dollar.

Examplify	Question 4 required:
Question	-
Number	

9

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.
Identify	Identify is similar to list , but requires you to also provide an explanation as to why the item/s that you have i dentified 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.
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

Present value interest factor of \$1 per period at i% for n periods (T), PVIF(i,n).										
Т	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
F	uture va	alue inte	erest fac	tor of \$1	per per	iod at i%	∕₀ f <mark>o</mark> r n p	eriods (T), FVIF	(i,n).
Т	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	1.010	1.020	1.030	1.040	1.050	1.060	1.070	1.080	1.090	1.100
2	1.020	1.040	1.061	1.082	1.103	1.124	1.145	1.166	1.188	1.210
3	1.030	1.061	1.093	1.125	1.158	1.191	1.225	1.260	1.295	1.331
4	1.041	1.082	1.126	1.170	1.216	1.262	1.311	1.360	1.412	1.464
5	1.051	1.104	1.159	1.217	1.276	1.338	1.403	1.469	1.539	1.611
6	1.062	1.126	1.194	1.265	1.340	1.419	1.501	1.587	1.677	1.772
7	1.072	1.149	1.230	1.316	1.407	1.504	1.606	1.714	1.828	1.949
8	1.083	1.172	1.267	1.369	1.477	1.594	1.718	1.851	1.993	2.144
9	1.094	1.195	1.305	1.423	1.551	1.689	1.838	1.999	2.172	2.358
Pre	sent valı	ue inter	est facto	or of an	(ordinary	y) annui	ty of \$1	per peri	od (T) at	t i% for
				n perio	ods (T), I	PVIFA(i,	n).			
Т	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759
				_						
Fut	ure valu	e intere	st facto	r of an o	rdinary	annuity	of \$1 pe	r period	(T) at i%	∕₀ for n
_				perio	ds (T), F	VIFA(i,n).			
T	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
2	2.010	2.020	2.030	2.040	2.050	2.060	2.070	2.080	2.090	2.100
3	3.030	3.060	3.091	3.122	3.153	3.184	3.215	3.246	3.278	3.310
4	4.060	4.122	4.184	4.246	4.310	4.375	4.440	4.506	4.573	4.641
5	5.101	5.204	5.309	5.416	5.526	5.637	5.751	5.867	5.985	6.105
6	6.152	6.308	6.468	6.633	6.802	6.975	7.153	7.336	7.523	7.716
7	7.214	7.434	7.662	7.898	8.142	8.394	8.654	8.923	9.200	9.487
8	8.286	8.583	8.892	9.214	9.549	9.897	10.260	10.637	11.028	11.436
		0 765	10 150	10 583	11.027	11.491	11.978	12.488	13.021	13,579