

Singapore CA Qualification (Foundation) Examination

7 December 2020

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. You are allowed to have only the following materials with you at your exam location:
 - One A4-sized double-sided cheat sheet
 - One A4-sized double-sided blank scratch paper
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 and **MUST NOT** be within reach or sight or hearing from where you are seated to write the exam. Use of these devices, or, the sight or hearing of these devices, will be flagged as integrity breaches and investigated, unless it is for the purpose as stated under paragraph 6 below.
5. During the examination, videos of you and your computer screen will be recorded for the purpose of ensuring examination integrity and you have consented to these recordings.
6. Should you encounter any issues during the examination, please contact any of the hotlines below for assistance. The hotlines will be operational from one hour before the scheduled start time of the examination to 45 minutes after the scheduled end time of the examination.

| Hotline numbers |
|-----------------|
| 6734 9868 |
| 6325 0594 |
| 8125 1053 |

7. This examination paper and all video recordings of this exam are the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

8. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
9. 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 2020.
10. Present all Journal Entries in the following format:

| | |
|------------------------------|-----|
| Transaction date | |
| DR Account Name | xxx |
| CR Account Name | xxx |
| (Narration or journal title) | |

11. For questions which require computations, you may want to use the spreadsheet tool in Exemplify to prepare your answers. You are required to copy your answers in the spreadsheet tool to the Exemplify answer windows.

**Exemplify
Question
Number**

Compulsory pre-exam steps to be recorded in video

1

Before you begin this exam, you are to perform a 360 degrees environment scan (via webcam), including a view of your table top, so that the location where you are taking the exam is being recorded in the video.

Next, show each side of your A4-sized double-sided cheat sheet to the webcam so that your cheat sheet is being recorded in the video.

Lastly, if you are using a calculator and a blank sheet of A4-sized scratch paper, show the calculator and both sides of the blank scratch paper to the webcam so that these items will be recorded in the video.

Should you encounter any issues during the examination, please contact any of the hotlines below for assistance.

1. 6734 9868
2. 6325 0594
3. 8125 1053

Question 1 – (a), (b) and (c)

On 1 January 20x0, Mars Pte Ltd (Mars) purchased 250,000 bonds issued by Jupiter Ltd (Jupiter bonds) for \$0.90 per bond. The transaction costs incurred are immaterial.

These bonds are traded on the Singapore Exchange and the salient terms are summarised as follows:

- Par value = \$1 per bond
- Interest = 6% per annum, payable semi-annually in arrears i.e. on 30 June and 31 December each year
- Maturity date = 31 December 20x2

The effective interest rate has been estimated to be 9.94% per year. Subsequent to the purchase of Jupiter bonds, the market price fluctuated as follows:

| Date | Price per bond (\$) |
|------------------|---------------------|
| 30 June 20x0 | \$0.92 |
| 31 December 20x0 | \$1.05 |
| 30 June 20x1 | \$0.98 |
| 31 December 20x1 | \$1.02 |

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

**Exemplify
Question
Number**

Question 1 required:

2

- (a)** Record the journal entries for Mars from 1 January 20x0 to 31 December 20x0 in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)) 9 *Financial Instruments* on the assumption that Jupiter bonds are subsequently measured at amortised cost. Show all necessary workings. Round your answers to the nearest dollar.

(6 marks)

3

- (b)** Record the journal entries for Mars from 1 January 20x0 to 31 December 20x0 in accordance with SFRS(I) 9 *Financial Instruments* on the assumption that Jupiter bonds are subsequently measured at fair value through profit or loss. Show all necessary workings. Round your answers to the nearest dollar.

(7 marks)

4

- (c)** Explain how financial liabilities are initially and subsequently measured in accordance with SFRS(I) 9 *Financial Instruments* and state one example for each measurement category.

(7 marks)

(Total: 20 marks)

Question 2 – (a), (b) and (c)

The Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position of Pluto Pte Ltd (Pluto) are shown below:

| Pluto Pte Ltd | |
|---|---------------|
| Statement of Profit or Loss and Other Comprehensive Income | |
| For the financial year ended 31 March 20x1 | |
| | \$'000 |
| Revenue | 55,014 |
| Cost of sales | (34,847) |
| Gross profit | 20,167 |
| Other income | 8 |
| Selling and distribution expenses | (9,557) |
| Administrative and other expenses | (6,105) |
| Finance costs | (454) |
| Profit before tax | 4,059 |
| Income tax expenses | (821) |
| Profit for the year | 3,238 |
| Other Comprehensive Income | |
| Fair value gain | 34 |
| Total comprehensive income | 3,272 |

Pluto Pte Ltd
Statement of Financial Position
As at 31 March

| | 20x1 | 20x0 |
|-------------------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Non-current assets | | |
| - Property, plant and equipment | 9,766 | 9,827 |
| - Intangible assets | 866 | 700 |
| - Financial assets @ FVTOCI | 158 | 124 |
| | <hr/> 10,790 | <hr/> 10,651 |
| Current assets | | |
| - Inventories | 4,966 | 5,158 |
| - Trade and other receivables | 8,015 | 7,925 |
| - Cash and cash equivalent | 2,804 | 3,579 |
| | <hr/> 15,785 | <hr/> 16,662 |
| Total assets | <hr/> 26,575 | <hr/> 27,313 |
| Non-current liabilities | | |
| - Borrowings | 3,450 | 4,827 |
| - Deferred tax liability | 548 | 687 |
| | <hr/> 3,998 | <hr/> 5,514 |
| Current liabilities | | |
| - Trade and other payables | 5,287 | 6,817 |
| - Borrowings | 1,284 | 847 |
| - Provision for taxation | 688 | 614 |
| | <hr/> 7,259 | <hr/> 8,278 |
| Equity | | |
| - Share capital | 9,240 | 8,870 |
| - Fair value reserve | 73 | 39 |
| - Retained earnings | 6,005 | 4,612 |
| | <hr/> 15,318 | <hr/> 13,521 |
| Total equity and liabilities | <hr/> 26,575 | <hr/> 27,313 |

The following information relating to the financial year ended 31 March 20x1 are detailed as follows:

- (1) 'Other income' includes dividends earned from financial assets only.
- (2) Fair value gain relates entirely to financial assets measured at fair value through other comprehensive income (FVTOCI).
- (3) Property, plant and equipment is accounted for using the cost model. During 20x1, equipment carried at net book value \$142,000 was disposed for \$81,000.
- (4) Intangible assets are accounted for using the cost model. No intangible assets were disposed during 20x1, but an impairment loss on software amounting \$17,000 was recognised.
- (5) During the financial year ended 31 March 20x1, depreciation and amortisation recorded amounted to \$183,000 and \$27,000 respectively.
- (6) Other payables do not include interest payable and dividend payable. There are no interest payable and dividend payable balances.

**Exemplify
Question
Number**

Question 2 required:

- 5** **(a)** Prepare the Statement of Cash Flows for Pluto Pte Ltd for the financial year ended 31 March 20x1 in accordance with SFRS(I) 1-7 *Statement of Cash Flows*. You are required to use the indirect method when preparing the operating cash flows section. Show all necessary workings. **(19 marks)**
- 6** **(b)** Prepare the Statement of Changes in Equity for Pluto Pte Ltd for the financial year ended 31 March 20x1 in accordance with SFRS(I) 1-1 *Presentation of Financial Statements*. Show all necessary workings. **(6 marks)**
- 7** **(c)** Explain the fundamental qualitative characteristics of useful financial information in accordance with SFRS(I) *The Conceptual Framework for Financial Reporting*. **(5 marks)**
- (Total: 30 marks)**

Question 3 – (a), (b) and (c)

On 1 July 20x5, Neptune Pte Ltd (Neptune) entered into an agreement to lease a crane and a down payment of \$40,000 was made immediately. This agreement is non-cancellable, and S\$65,000 is payable on 30 June each year over the next four years. The ownership of the crane will be transferred to Neptune at the end of the lease term.

Neptune's management estimates that the useful life of the crane is 8 years with zero residual value and they have decided to adopt the straight-line method to compute depreciation. Depreciation expense, which is recorded at the end of each financial year, is not allowed for income tax purposes. Instead, Neptune is eligible to claim capital allowance for such capital expenditure incurred, which is computed as qualifying costs divided by three years.

Based on recent conversations with Neptune's bankers, management understands that the incremental borrowing rate is 8% per annum. Neptune's financial year end is 30 June and corporate tax rate is 17%.

During 20x8 financial year, management realised that direct costs relating to the execution of the lease agreement for the crane procured in 20x5 financial year was expensed. Also, they realised that a reducing-balance method was a more accurate basis of computing depreciation.

**Exemplify
Question
Number**

Question 3 required:

- 8** **(a)** Record the journal entries from 1 July 20x5 to 30 June 20x6 in accordance with 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. Round your answers to the nearest dollar. **(8 marks)**
- 9** **(b)** Calculate the deferred tax asset/liability and show the journal entry to record the deferred tax asset/liability for the financial years ended 30 June 20x6 and 20x7 in accordance with SFRS(I) 1-12 *Income Taxes*. Show all necessary workings. Round your answers to the nearest dollar. **(6 marks)**
- 10** **(c)** Describe how the two events discovered during FY 20x8 should be dealt with, especially in accordance with SFRS(I) 1-8 *Accounting Policies, Changes in Accounting Estimates and Errors*. No journal entries are required. **(8 marks)**
- (Total: 22 marks)**

Question 4 – (a), (b) and (c)

Each following issue should be dealt with separately. Ignore the effects of income tax and GST arising from these transactions and events.

Issue 1

Saturn Pte Ltd (Saturn) operates in the oil and gas industry. In early 20x3, the oil price crashed due to price war, and management decided to carry out an impairment review.

An extract of Saturn's balance sheet as at 30 September 20x3 is shown below:

| | \$ |
|-----------------------------|-----------|
| Leasehold property | 3,400,000 |
| Plant and equipment | 1,700,000 |
| Inventories | 430,000 |
| Trade and other receivables | 2,070,000 |
| Trade and other payables | 1,900,000 |

The value in use and fair value of Saturn estimated by management is \$5,100,000 and \$5,200,000 respectively. Cost of disposal is approximately 5% of fair value.

Issue 2

Venus Pte Ltd (Venus), a newly incorporated business whose functional currency is Singapore dollar (S\$), entered into the following transactions during 20x0:

- 8 February: Purchased inventory on credit terms from an overseas supplier (DEF) for US\$85,000.
- 15 March: Setup a United States dollar (US\$) bank account by transferring S\$200,000 from a Singapore dollar bank account.
- 1 April: Sold half the goods purchased to a local customer (XYZ) on credit terms for US\$68,000.
- 7 April: Paid to DEF US\$50,000 from the United States dollar bank account.
- 18 May: Received from XYZ US\$28,000 into the United States dollar bank account.

Exchange rates:

| Date | US\$1 to S\$ |
|-----------------|---------------------|
| 8 February 20x0 | 1.322 |
| 15 March 20x0 | 1.310 |
| 1 April 20x0 | 1.359 |
| 7 April 20x0 | 1.370 |
| 18 May 20x0 | 1.394 |
| 30 June 20x0 | 1.402 |

Venus adopts a perpetual inventory system. At the end of its financial year i.e. 30 June 20x0, the net realisable value of inventories is S\$55,000.

Issue 3

Mercury Pte Ltd (Mercury) most recent financial year end is 31 March 20x1. During May 20x1, just before the financial statements were about to be authorised for issue, there was an outbreak of a deadly virus. As a result, the business has declined by more than 80% and Mercury's ability to operate as a going concern is in doubt.

**Exemplify
Question
Number**

Question 4 required:

- 11** **(a)** For Issue 1: Calculate the impairment loss, allocation of impairment loss and carrying amount of Saturn's assets and liabilities (after allocating and deducting impairment loss) for the financial year ended 30 September 20x3 in accordance with SFRS(I) 1-36 *Impairment of Assets*.
(8 marks)
- 12** **(b)** For Issue 2: Record the journal entries for the financial year ended 30 June 20x0 in accordance with SFRS(I) 1-2 *Inventories* and SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. Show all necessary workings. Round your answers to the nearest dollar.
(15 marks)
- 13** **(c)** For Issue 3: Discuss how the going concern issue should be dealt with by Mercury for the financial year ended 31 March 20x1 in accordance with SFRS(I) 1-10 *Events After the Reporting Period*.
(5 marks)
(Total: 28 marks)

END OF PAPER

Appendix A - Future Value and Present Value Tables

| Present value interest factor of \$1 per period at i% for n periods (T), PVIF(i,n). | | | | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| T | 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 |

| Future value interest factor of \$1 per period at i% for n periods (T), FVIF(i,n). | | | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| T | 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 |

| Present value interest factor of an (ordinary) annuity of \$1 per period (T) at i% for n periods (T), PVIFA(i,n). | | | | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| T | 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 |

| Future value interest factor of an ordinary annuity of \$1 per period (T) at i% for n periods (T), FVIFA(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 |
| 9 | 9.369 | 9.755 | 10.159 | 10.583 | 11.027 | 11.491 | 11.978 | 12.488 | 13.021 | 13.579 |

Appendix B - 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. |
| Discuss | Discuss requires you to provide the for and against arguments, you cannot have a discussion without opposing views otherwise it would be just a conversation. If discuss is placed near the front of the instruction, then it requires you to provide an answer that is similar to explain , but addresses both the for and against arguments. For instance, “ Discuss why numerical valuation is essential when buying or selling a small business”. |
| 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. |
| 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 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. |