

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Principles of Financial Reporting (PFF)

EXAMINATION DATE: 19 June 2018

Section 1

General comments

Overall, the performance for the June 2018 sitting was satisfactory. Candidates were generally adequately prepared and several Candidates did exceptionally well. The examination continues to be a restricted open book format with Candidates being able to bring in a double-sided A4 page of personal notes for reference.

As in past examinations, the Candidates appeared generally able to answer basic accounting questions and prepare a statement of cash flows. Most Candidates could record foreign currency transactions on initial recognition date but many could not do the revaluation of monetary assets correctly.

Candidates were also mainly able to record simple transactions, but many Candidates struggled to handle more complex adjustments relating to deferred tax as well as re-classification of property, plant, and equipment to investment property. Also, allocation of the transaction price to performance obligations in contracts with customers seems to be a challenge for some Candidates.

To do well for this module, Candidates should read and do more exercises from the main accounting textbooks used in university accounting courses (a list of suggested textbooks is available from the SAC website www.sac.gov.sg) and read the accounting standards. Many Singapore Financial Reporting Standards (SFRS) 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.

For this examination, unless specified otherwise, Candidates were to assume that all the reporting entities in all the questions adopted, for all the relevant years, the Singapore Financial Reporting Standards (SFRS) that were issued by the Accounting Standards Council as at 1 January 2018.

Moving forward, all PFF examinations will apply the Singapore Financial Reporting Standards (International) (SFRS(I)) that are issued by the Accounting Standards Council for the relevant year, regardless of the entity type.

Section 2 Analysis of individual questions

Question 1

The first part of this question (**Part (a)**) required the Candidates to prepare a statement of cash flows using the indirect method (SFRS 7). Overall, this part was fairly well attempted. SFRS 7 allows companies to prepare the Statement of Cash Flows using either the direct or indirect method. However, entities are encouraged to report cash flows from operating activities using the direct method as the direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Future PFF Candidates must ensure that they are able to prepare the operating activities section of a cash flow statement using both methods.

The areas where Candidates did well include:

1. Format and classification of cash flow items were appropriately presented;
2. A major part of the operating activities section was prepared well; and
3. Candidates who showed workings were able to demonstrate understanding of the cash flows relating to purchases, disposal of building and equipment, and dividends paid.

Improvements required include:

1. Ensure that correct the signage is used for cash flow items (i.e. the correct direction of the cash flow – cash in or cash out);
2. Candidates must show workings for certain numbers derived, e.g. proceeds from disposal of building. Partial marks cannot be awarded if workings are not provided; and
3. Interest paid must be shown as a separate line item and not be netted off against the change in interest receivable.

For **Part (b)**, Candidates were required to list items typically reported using the direct method. A handful of Candidates were not able to correctly identify items typically reported using the direct method, e.g. cash collected from customers and cash paid to suppliers.

For **Part (c)**, topics relating to the Conceptual Framework and fundamental qualitative characteristics were tested.

While most Candidates were able to correctly identify the objectives of preparing financial statements, a majority of them were unable to articulate how the fundamental qualitative characteristics affect the usefulness of financial statements and did not provide relevant examples to support their explanation.

Question 2

For **Part (a)**, Candidates were required to prepare journal entries relating to foreign currency transactions and events in accordance with SFRS 21 *The Effects of Changes in Foreign Exchange Rates*.

Most Candidates could record journal entries for sales, collections from customers, purchases, payments to suppliers, and the purchase of quoted investments.

However, many Candidates were not able to revalue monetary items (e.g. accounts receivable, cash, and accounts payable) correctly. It is important for Candidates to show their workings when computing the exchange gain or loss for these monetary items. Common mistakes made by Candidates included leaving out entries and/or using incorrect exchange rates. Candidates should note that if their final answer is incorrect, markers will attempt to identify the underlying cause (for instance, a transposition error, omission of a data point, incorrect sign, etc.) to see if they can award partial marks for workings.

For **Part (b)**, Candidates were required to describe how one should determine functional currency. A majority of the Candidates were able to describe the primary and secondary indicators of determining the company's functional currency.

Overall, Question 2 was fairly well attempted.

Question 3

This question was presented as two mini cases and tested the Candidates' understanding of SFRS 12 *Income Tax* as well as the accounting treatment relating to SFRS 16 *Property, Plant, and Equipment* and SFRS 40 *Investment Property*. Overall, this question was poorly attempted.

For **Case A**, a majority of the Candidates were not able to compute current tax payable correctly. In addition, deferred tax liability was also incorrect. A common mistake made by the Candidates was the omission of the taxable temporary difference arising from interest revenue and interest payable.

The advice to future Candidates is not to have the mis-conception that taxation is not relevant to financial reporting.

For **Case B**, the area where most Candidates did well in was correctly preparing the journal entries to record the purchase of the building and depreciation. They were also able to correctly record the revaluation gain for investment property at the end of the financial year.

A handful of Candidates did not include the stamp duty as part of the initial cost of the building (see SFRS 16 paragraphs 16, 17, and 19 on elements of cost). Also, impairment loss (SFRS 36 *Impairment of Assets*) was either not recognised or was computed wrongly. Several Candidates did not realise that there was a need to

record a revaluation gain prior to the reclassification of the asset from property, plant, and equipment to investment property.

Question 4

Part I covered the five-step model framework and application of the same to recognise revenue under SFRS 115 *Revenue from Contracts with Customers*.

Although a few Candidates merely wrote down the five-steps, most Candidates did well to elaborate each step using facts drawn from the case.

When preparing the journal entries, the following mistakes were observed:

- Goods and Services Tax (GST) output tax was erroneously included in deferred revenue;
- Revenue was not deferred when the contract was initially entered into;
- Not allocating the three performance obligations (i.e. software, configuration services, and customer support) correctly; and
- The date when the GST was paid was incorrect.

Part II focused on year-end adjustments relating to SFRS 37 *Provisions, Contingent Liabilities and Contingent Assets*, SFRS 16 *Property, Plant, and Equipment* and SFRS 12 *Income Taxes*

Most Candidates were able to accrue for the provision relating to short-term employee benefits correctly. However, many Candidates failed to take into account the deferred tax impact.

In addition, some Candidates were not able to compute depreciation correctly. The complexity arose due to the change in useful life mid-way through the financial year. Again, many Candidates failed to take into account the deferred tax liability arising.

Overall, Question 4 was not well attempted. Being the last question, the poor performance is likely to be a function of poor time management and inadequate preparation.