

Singapore CA Qualification (Foundation) Examination

19 June 2018

Principles of Financial Reporting

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **3 hours 15 minutes**, including 15 minutes of reading time. Only annotations are allowed on the question paper during the reading time.
2. This examination paper has **FOUR (4)** questions and comprises **SIXTEEN (16)** pages (including this instruction sheet and appendix A). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. Only calculators that comply with the SAC's regulations may be used during the examination. However, computers, mobile phones, tablets, and other electronic devices **MUST NOT** be used during the examination.
4. The number of marks allocated is shown at the end of each question.
5. Write legibly in black/blue ink only.
6. All answers must be written in the answer booklets provided.
7. Begin your answer to each question in a separate answer booklet.
8. This question paper **MUST NOT** be removed from the examination room.
9. This examination paper is the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

10. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
11. Unless specified otherwise, assume that all the reporting entities in all the questions adopt, for all the relevant years, the Singapore Financial Reporting Standards (SFRS) that were issued by the Accounting Standards Council as at 1 January 2018.
12. 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.

Question 1 – (a), (b), and (c)

The following information was extracted from the financial statements of Happy Pte Ltd.

Happy Pte Ltd		
Statement of Financial Position as at 31 December 20x6		
	20x6	20x5
	\$'000	\$'000
Non-current assets		
Equipment (net of accumulated depreciation)	7,180	6,590
Building (net of accumulated depreciation)	28,000	29,500
Current assets		
Cash at bank	650	540
Inventory	12,150	10,750
Accounts receivable	10,900	8,800
Interest receivable	700	900
Prepaid expenses	400	500
Total assets	59,980	57,580
Equity and liabilities		
Share capital and reserves		
Share capital	23,170	22,600
Revaluation surplus	230	-
Retained profits	19,080	18,170
	42,480	40,770
Non-current liabilities		
Long-term bank loan	4,500	3,600
Long-term note payable	3,300	2,800
Current liabilities		
Accounts payables	7,500	8,400
Interest payable	600	500
Salary payable	840	760
Dividend payable	300	200
Tax payable	460	550
Total liabilities	17,500	16,810
Total equity and liabilities	59,980	57,580

Happy Pte Ltd
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 20x6

	20x6 \$'000
Sales revenue	27,800
Cost of sales	(19,300)
Gross profit	8,500
Dividend income	400
Salary expense	(2,700)
Depreciation expense – equipment	(1,400)
Depreciation expense – building	(850)
Interest expense	(1,300)
Gain on disposal of building	200
Loss on disposal of equipment	(50)
Profit before tax	2,800
Tax expense	(500)
Profit after tax	2,300
Other comprehensive income	
Revaluation of building	230
Total comprehensive income for the year	2,530

Additional information

- (1) Equipment purchases of \$2,500,000 were funded by cash. Equipment is accounted for using the cost model.
- (2) Buildings are accounted for using the revaluation model. There were no new purchases of building during 20x6.

Question 1 required:

- (a)** In accordance with the requirements of Singapore Financial Reporting Standard (SFRS) 7 *Statement of Cash Flows*, prepare a Statement of Cash Flows for Happy Pte Ltd for the year ended 31 December 20x6, using the indirect method to present cash flows from operating activities. Clearly show all cash flows related to equipment and building. **(20 marks)**

The management of Happy Pte Ltd is considering using the direct method to present the operating cash flows because SFRS 7 *Statement of Cash Flows* encourages the use of direct method.

- (b)** List FOUR specific operating cash flow items typically reported using the direct method. **(2 marks)**
- (c)** The *Conceptual Framework* sets out the concepts that underlie the preparation and presentation of general purpose financial statements for external users.
- (i)** Outline THREE objectives of preparing general purpose financial statements. **(3 marks)**
- (ii)** Explain how the fundamental qualitative characteristics affect the usefulness of the financial statements and give ONE example from the Statement of Financial Position to support your explanation. **(3 marks)**
- (Total: 28 marks)**

Question 2 – (a) and (b)

Company Blue Pte Ltd (CBPL) uses the Singapore dollar (S\$) as its functional currency. CBPL entered into the following Australian dollar (A\$) transactions during the financial year ended 31 December 20x7:

Description	A\$'000
Purchase cost of equipment on 1 January 20x7 on credit	9,450
Goods and services tax on equipment purchase cost on credit	661
Cost of inventory purchased on 1 February 20x7 on credit, and sold during 20x7	15,850
Sales through the year 20x7 on credit	25,000
Cash collected from sales to customers through the year 20x7	21,200
Cost of inventory purchased on 30 September 20x7 on credit, not sold by end 20x7	8,160
Cash paid to suppliers through the year 20x7	17,800
Purchase quoted shares classified as trading with cash on 31 July 20x7	6,800

Other information

- (1) CBPL is not registered for Goods and Services Tax (GST).
- (2) Inventory items are not interchangeable and the specific identification method is adopted.
- (3) Ignore effects of income tax arising from these transactions and events.
- (4) Foreign currency monetary amounts are re-valued at the end of the financial year.
- (5) Equipment is depreciated on double-declining basis over five years with zero residual value.

(6) Fair value of trading shares on 31 December 20x7 is A\$7.1 million.

(7) Account balances on 1 January 20x7:

Account name	A\$'000
Accounts receivable	5,330
Accounts payable	4,860
Cash	12,240

(8) Exchange rates

Dates	A\$1 : \$S
30 September 20x6	1.0012
1 January 20x7	1.0233
1 February 20x7	1.0053
31 March 20x7	1.0359
1 May 20x7	1.0220
31 July 20x7	1.0182
30 September 20x7	1.0440
31 December 20x7	1.0423
Average rate from May to December 20x7	1.0303
Average 20x7	1.0261

Question 2 required:

- (a) Prepare the journal entries in the functional currency recorded in Company Blue Pte Ltd's books for the year ended 31 December 20x7, in accordance with Singapore Financial Reporting Standard (SFRS) 21 *The Effects of Changes in Foreign Exchange Rates*, SFRS 16 *Property, Plant, and Equipment* and other relevant accounting standards. Show all foreign currency translation calculations. Round your answers to the nearest thousand dollars.

Present your journals in the following format:

Transaction date

DR Account Name 100

CR Account Name 100

(Narration or journal title)

Present your answers using the following format:

Name of Item 1 = (Workings) = \$ **Answer**

Name of Item 2 = (Workings & Workings) = \$ **Answer**

Name of Item 3 = (Workings) = \$ **Answer**

Total = \$ **Answer**

(22 marks)

- (b) Describe how management should determine the functional currency of Company Blue Pte Ltd. **(4 marks)**

(Total: 26 marks)

Question 3 – Case A and Case B

Case A

P Pte Ltd recorded the following financial numbers and transactions for the year ended 31 December 20x7:

	\$'000
Profit before tax (including the accounting expenses/revenues below)	98,300
Non-deductible penalty expense	240
Depreciation included in profit before tax *	1,000
(* Capital allowance on fixed assets deductible for income tax purpose is \$1,800,000.)	
Interest revenue included in profit before tax	2,400
Interest collected and taxable on tax return	1,900
Accrual for legal expense included in profit before tax	700
Legal expense payment made and deductible on tax return	400
Accrual for employee benefit expense included in profit before tax	8,400
Employee benefit payments made and deductible on tax return	7,900

The corporate income tax rate is 17% and there are no tax exemptions or tax rebates.

Question 3 Case A required:

- (a) Compute the current tax expense, current tax payable, deferred tax asset and deferred tax liability and prepare the journal entries for the year 20x7 in accordance with Singapore Financial Reporting Standard (SFRS) 12 *Income Taxes*. Show the deductible and taxable temporary differences in your workings.

Present your journals in the following format:

Transaction date

DR Account Name 100

CR Account Name 100

(Narration or journal title)

Present your answers using the following format:

Name of Item 1 = (Workings) = **\$ Answer**

Name of Item 2 = (Workings & Workings) = **\$ Answer**

Name of Item 3 = (Workings) = **\$ Answer**

Total = **\$ Answer**

(7 marks)

Case B

Fantastic Formula Pte Ltd (the entity) applies the cost model to account for its property, plant, and equipment used in its business operations. The entity purchased the building for \$1.4 million on 1 January 20x6. The stamp duty paid on the purchase was \$100,000. At the date of purchase, the building had an estimated useful life of 20 years with zero residual value.

At the end of the year 20x6, the building's value in use was estimated to be \$1 million, while the resale value was estimated to be \$1.03 million.

On 1 July 20x7, the entity decided to move its business operations out of the building, and rent out the building solely to collect rental income and applied the fair value model to account for investment property as of the same date. The fair value of the building was estimated to be \$1.24 million on 30 June 20x7 and \$1.31 million on 31 December 20x7.

The entity's financial year end is 31 December. Ignore effects of income tax arising from these transactions and events.

Question 3 Case B required:

- (a)** Prepare the journal entries to be recorded from 1 January 20x6 to 31 December 20x7 inclusive, in accordance with Singapore Financial Reporting Standard (SFRS) 16 *Property, Plant and Equipment* and SFRS 40 *Investment Property*. Round your answers to the nearest thousand dollars.

Present your journals in the following format:

Transaction date

DR Account Name 100

CR Account Name 100

(Narration or journal title)

(10 marks)

(Total: 17 marks)

Question 4 – Part I and Part II

Part I

Bear Pte Ltd, a bespoke software company and a Goods and Services Tax (GST) registered business, entered into a contract with Polar Pte Ltd in early February 20x7 to provide a perpetual software licence, configuration services, and customer support.

Shortly after the contract was signed, Bear Pte Ltd raised an invoice on 15 February 20x7 for the full sum specified in the contract i.e. \$37,450 including 7% GST. The software and licence key were delivered to Polar Pte Ltd on 1 March 20x7.

The configuration services require Bear Pte Ltd to configure certain aspects of the software, but do not significantly modify the software. Under the contract, Polar Pte Ltd is allowed to utilise this service for four visits within the next 12 months. The first visit was made on 5 April 20x7 and the second visit was made on 6 August 20x7.

Customer support includes a 24-hour technical hotline service, which commences when the software licence is delivered, for a period of three years.

Currently, the standalone selling price charged by Bear Pte Ltd is detailed as follows:

- Software licence = \$27,820 (Including 7% GST)
- Configuration services = \$1,605 per visit (Including 7% GST)
- Customer support = \$3,210 per year (Including 7% GST)

Assume GST payments (or GST refunds) are made two weeks after the end of each calendar quarter.

Question 4 Part I required:

- (a)** Explain qualitatively how Bear Pte Ltd should apply the five-step model framework to recognise revenue on the contract with Polar Pte Ltd under Singapore Financial Reporting Standard (SFRS) 115 *Revenue from Contracts with Customers*. **(8 marks)**

- (b)** Prepare the journal entries to be recorded in the accounts of Bear Pte Ltd for the financial year ended 31 December 20x7, in accordance with Singapore Financial Reporting Standard (SFRS) 115 *Revenue from Contracts with Customers*. Round your answers to the nearest dollar and use one decimal place when recording percentages.

Present your journals in the following format:

Transaction date

DR Account Name 100

CR Account Name 100

(Narration or journal title)

(13 marks)

Part II

P Co Pte Ltd (P Co) is a manufacturer of costume jewellery. P Co owns a flatted factory in Jurong that it uses for its manufacturing activities and a separate office building in Clementi.

P Co has a new accountant who has asked for your advice on accounting for the following transactions and events, as these transactions have not yet been recorded in the books of P Co for the year ended 31 December 20x7. The corporate income tax rate is 17%.

1. P Co's employees are entitled to 18 days of annual paid leave of absence for holidays. There is a limit of 12 days unutilised paid absences that can be carried forward to the following year. On 31 December 20x7, 500 employees of P Co with a daily salary of \$300 each, have on average, 10 days unutilised paid absences each carried forward to 20x8 and this leave is expected to be fully utilised in 20x8. Such employee benefits are only tax deductible when paid.
2. Machinery was purchased for \$5,100 and available for use on 1 January 20x7 to be used in P Co's manufacturing activities and was correctly recorded in the books of P Co as at that date. The residual value of machinery at the end of its useful life is expected to be zero and the useful life was initially estimated to be five years.

On 1 July 20x7, the estimated useful life for depreciation of the machinery was changed to three years. The residual value of machinery at the end of its useful life is still expected to be zero. P Co accounts for depreciation on a 6-monthly basis (on 30 June and 31 December) but the Accounts Executive forgot to record depreciation for the six months to 30 June 20x7. The tax authority allows capital allowances (accelerated write-off) of 50 per cent per annum for machinery. Depreciation is not allowed for tax purposes.

Question 4 Part II required:

- (a)** Prepare the necessary adjusting journal entries in P Co Pte Ltd's books for each of the above transactions and events for the year ended 31 December 20x7.

Present your journals in the following format:

Transaction date

DR Account Name 100

CR Account Name 100

(Narration or journal title)

(8 marks)

(Total: 29 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 .
List	Prepare an itemised list . The use of bullets is permitted.
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.