SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Principles of Financial Reporting (PFF)

EXAMINATION DATE: 7 June 2019

Section 1
General comments

For this examination, unless specified otherwise, Candidates were to assume that all reporting entities adopted, 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.

The overall performance for the June 2019 sitting was satisfactory and Candidates were generally adequately prepared. About two-third of the Candidates passed the exam and several Candidates did exceptionally well, obtaining a pass with distinction and high distinction. While this is the second time an e-Exam format was implemented for this module, PFF continues to be a restricted open book format where Candidates are able to bring in a double-sided A4 page of personal notes for reference.

The majority of the Candidates performed reasonably well for the first question relating to the preparation of the Statement of Changes in Equity and Statement of Cash Flows in accordance with SFRS(I) 1-1 *Presentation of Financial Statements*.

Candidates' performance for the second question, which covered several topics, was mixed. In particular, Candidates were unable to compute deferred tax in accordance with SFRS(I) 1-12 *Income Taxes*, a handful leaving it out. On the other hand, topics relating property, plant and equipment, impairment and ethics were fairly well attempted.

Due to Candidates' poor understanding of SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rate* and SFRS(I) 15 *Revenue from Contracts with Customers*, Candidates did poorly for the third question – a majority of Candidates failed this question.

The fourth and last question required Candidates to account for financial assets and apply the expected credit loss concept under SFRS(I) 9 *Financial Instruments*, the new lease standard and events after the reporting period. Candidates in general did not do well for this question.

To do well for this module, Candidates should read and do more exercises from the recommended accounting textbooks listed in the PFF study guide which can found on the SAC website (www.sac.gov.sg) and read the accounting standards. In addition, Candidates are strongly encouraged to peruse the Examiner's Guide. Many SFRS(I) 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.

Section 2
Analysis of individual questions

Question 1

Overall, Candidates did well for Question 1 by demonstrating competence in preparing financial statements for a stand-alone entity in the appropriate format. This question tested Candidates on the concepts and application of SFRS(I) 1-1 *Presentation of Financial Statements*.

With regards to the preparation of the Statement of Changes in Equity in **part (a)**, most Candidates did well. However, errors were made by some Candidates for not presenting profit after tax and dividends declared separately.

For **part (b)**, Candidates were required to prepare the Statement of Cash Flows. Candidates were generally able to present the Statement of Cash Flows in an appropriate format, even though a handful of Candidates left out the main headings e.g. operating, investing and financing activities. Not many Candidates were able to derive the cash outflow relating to additions to property, plant and equipment. Another common error related to income tax paid – Candidates first need to determine the current income tax correctly. In doing so, deferred income tax should be considered.

Question 2

Candidates' performance for this question, which tested them on various topics including property, plant and equipment, impairment deferred tax, provision and ethics, was generally mixed.

For **part (a)**, majority of the Candidates did not score full marks. The common error made in relation to the impairment loss was to credit the property, plant and equipment. Instead, Candidates should have credited the accumulated impairment account. When determining recoverable amount, most Candidates failed to consider the fair value less cost to sell off the taxis. For the minority that applied this concept, the cost to sell was omitted. Most Candidates were able to account for the initial cost and depreciation correctly.

A handful of Candidates left out **part (b)** relating to the computation of deferred tax. This could be a case where Candidates have not studied and covered the entire syllabus for this module. For those who attempted, the common error was the failure to include two years of capital allowance and depreciation. Also, a number of Candidates erroneously defined temporary difference as capital allowance.

For **part (c)**, Candidates were required to explain the appropriate accounting treatment for Issue 3. Candidates are reminded to read the requirements carefully. Some Candidates prepared journal entries for **part (c)**, even though there was no requirement to do so. Given that Jimmy spoke to some employees on the possibility of restructuring and termination and coupled by the fact that the board is scheduled to meet in January, which is very close to year end, some Candidates deemed this as a probable event and concluded that a provision was required. This thinking is flawed.

In **part (d)**, while most Candidates were able to list two relevant fundamental principles that were being threatened, not many elaborated why.

Question 3

This question covered two standards, namely SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rate* and SFRS(I) 15 *Revenue from Contracts with Customers*. Overall, it was poorly attempted by a majority of the Candidates. Common errors included:

- Omitted the foreign exchange gain / loss;
- Overlooked the need to revalue foreign currency monetary amounts i.e. trade payables using the closing rate;
- Omitted the journal entries relating to cost of goods sold;
- Did not allocate the transaction price to the performance obligations in the contract correctly; and
- Failed to recognise revenue when the entity satisfied a performance obligation.

Question 4

The accounting of financial assets, the new lease standard (effective 1 January 2019 onwards) and events after reporting date was covered in this question.

For **part (a)**, most Candidates were able to prepare journal entries relating to the financial asset. However, some Candidates were not able to derive the correct amount for the increase in expected credit loss. A small number of Candidates misread the question and made a critical error – they treated the financial asset as a financial liability. Candidates are strongly encouraged to read the questions carefully.

Pleasingly for **part (b)**, a majority of the Candidates were able to account for leases (from the perspective of a leasee) under the new standard, which came into effect from 1 January 2019 onwards. For those Candidates who failed this part, errors included not being able to compute the interest expense using the effective interest method and not being able to compute the depreciation expense correctly.

For **part (c)**, Candidates were expected to identify whether the events after the reporting period were adjusting or non-adjusting events. Surprisingly, many Candidates were not aware that two issues needed to be addressed, namely inventories destroyed by fire and the error resulting in an overstatement of inventories. As such, they only discussed the treatment of one event.

