

Singapore CA Qualification (Foundation) Examination

7 June 2019

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 **FIFTEEN (15)** 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)

You joined Marshall Music Pte Ltd recently as an accountant and have been provided by the current finance manager with the Statement of Financial Position for the financial years ended 30 September 20x8 and 20x7 and the Income Statement for the financial year ended 30 September 20x8.

Statement of Financial Position

As at 30 September

	<u>20x8</u>	<u>20x7</u>
	\$	\$
Current assets		
- Cash and cash equivalent	194,740	100,290
- Inventories	340,100	389,900
- Trade and other receivables	582,750	558,230
	<hr/> 1,117,590	<hr/> 1,048,420
Non-current assets		
- Property, plant and equipment	722,700	680,520
- Intangible assets	47,500	59,500
- Financial assets	200,100	140,900
	<hr/> 970,300	<hr/> 880,920
Total assets	<hr/> 2,087,890	<hr/> 1,929,340
Current liabilities		
- Trade and other payables	339,630	388,280
- Provision	5,900	6,100
- Dividends payable	35,000	20,000
- Current income tax liability	20,290	25,050
- Borrowings	140,800	120,700
	<hr/> 541,620	<hr/> 560,130
Non-current liabilities		
- Borrowings	300,400	280,700
- Deferred income tax liability	30,700	24,300
	<hr/> 331,100	<hr/> 305,000

	<u>20x8</u>	<u>20x7</u>
	\$	\$
Equity		
- Share capital	450,000	400,000
- Retained earnings	680,170	638,410
- Fair value reserve	85,000	25,800
	<u>1,215,170</u>	<u>1,064,210</u>
Total equity and liabilities	<u>2,087,890</u>	<u>1,929,340</u>

Income Statement
For the financial year ended 30 September 20x8

	\$
Revenue	1,307,100
Cost of sales	(784,200)
Gross profit	<u>522,900</u>
Other income	13,280
Operating expenses	(358,710)
Finance expenses	(8,200)
Profit before income tax	<u>169,270</u>
Income tax expense	(28,300)
Profit after tax	<u><u>140,970</u></u>

The following information relating to the financial year ended 30 September 20x8 was made available:

- (1) The amortisation and depreciation charge made in the income statement was \$12,000 and \$68,000 respectively.

- (2) Property, plant and equipment is accounted for using the cost model. Plant and equipment with a historical cost of \$120,300 and accumulated depreciation of \$40,100 was sold during the financial year.
- (3) 'Other income' includes gain on disposal of plant and equipment of \$8,250. The balance relates to dividend income.
- (4) Financial assets comprise quoted equity securities which have been bought several years ago and is accounted for at fair value through other comprehensive income. No financial assets were bought or sold during the financial year.
- (5) Interest payable as of 30 September 20x8 is \$1,070 and this has been included under 'Trade and other payables'. No interest is payable at the beginning of the financial year.
- (6) No repayment of borrowings was made during the financial year.
- (7) During the financial year ended 30 September 20x8, the dividends were declared paid. There were no dividends receivable as of 30 September 20x8 and 30 September 20x7.
- (8) Intangible assets are accounted for using the cost model.

**Exemplify
Question
Number**

Question 1 required:

1

- (a)** Prepare the Statement of Changes in Equity for Marshall Music Pte Ltd for the financial year ended 30 September 20x8 in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 1-1 *Presentation of Financial Statements*.

Present your answers in the following format:

Account Name

Opening balance = xxx

Name of Item 1 = xxx

Name of Item 2 = xxx

Ending Balance = xxx

(6 marks)

2

- (b)** Prepare the Statement of Cash Flows for Marshall Music Pte Ltd for the year ended 30 September 20x8 in accordance with Singapore Financial Reporting Standard (International) (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.

(22 marks)

(Total: 28 marks)

Question 2 – (a), (b), (c) and (d)

Jimmy Tan is the Chief Operating Officer (COO) of Tiger City Cab Pte Ltd (TCC), a taxi operator domicile in Singapore. A local start-up Ride-With-U has recently introduced a private hire ride-hailing service in Singapore, and this has adversely affected TCC's business. As a result, Jimmy Tan has appointed your firm as consultant to advise him on certain accounting related matters for the financial year ended 31 December 20x7 and/or 20x8.

On 1 January 20x7, TCC purchased a fleet of 40 taxis which cost \$70,000 each. This is stated at cost less accumulated depreciation and impairment. The straight-line method is used to compute depreciation and it is recorded at the end of each financial year. The estimated useful life is eight years and the scrap value of each taxi is about \$8,000.

Issue 1

As of the financial years end for 20x7 and 20x8, the value in use of its existing fleet of taxis has been estimated to be \$2,500,000 and \$1,890,000 respectively. If TCC was to sell the taxis in the second-hand motor car market, it would fetch about \$48,000 per taxi at the end of year 20x8. The industry norm is to pay a commission of 2% on selling price to the motor car dealer upon sale of vehicle. A transfer fee of \$25 per taxi is payable to the Land Transport Authority.

Issue 2

For income tax purpose, depreciation expense for its fleet of taxis is not allowed. Instead, TCC is able to claim capital allowance for the expenditure incurred on its taxis, which is computed as cost divided by six years. Corporate tax rate is 17%.

Issue 3

On 15 December 20x8, Jimmy Tan met up with some employees and talked briefly about the possibility of restructuring the business and terminating several staff in light of the recent disruption of TCC's business. A detailed restructuring plan was to be deliberated and approved at the forthcoming board of directors meeting to be held in

January 20x9. Redundancy costs is significant and anticipated to be between \$290,000 and \$320,000.

Issue 4

Jimmy Tan noted from the management accounts that there was a significant amount spent on an advertisement campaign in December 20x8. He was of the view that while the expense has been incurred and paid, the benefits of increased revenue has not happened during the financial year ended 31 December 20x8. Thus, he instructed his Accountant, who is a member of Institute of Singapore Chartered Accountants, to reverse the entry and capitalise the advertising expense.

Note: Each of the above issue is independent of each other and should be dealt with individually.

**Exemplify
Question
Number**

Question 2 required:

3

- (a)** Record the journal entries relating to Issue 1 for the financial years ended 31 December 20x7 and 20x8 in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)) 1-16 *Property, Plant, and Equipment* and Singapore Financial Reporting Standards (International) (SFRS(I)) 1-36 *Impairment of Assets*. Show all necessary workings.

(11 marks)

4

- (b)** Compute the deferred tax asset or deferred tax liability arising from Issue 2 for the financial year ended 31 December 20x8 in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 1-12 *Income Taxes*. Show all necessary workings. For avoidance of doubt, you are not required to take into account the effect of any impairment (if any).

Present your answers in the following format:

Financial year <20x7>

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

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

Total = \$ Answer

(6 marks)

**Exemplify
Question
Number**

- 5** **(c)** Explain the appropriate accounting treatment relating to Issue 3 for the financial year ended 31 December 20x8 in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*. **(6 marks)**
- 6** **(d)** With reference to Ethics Pronouncement (EP) 100 *The ISCA Code of Professional Conduct and Ethics*, identify TWO fundamental principles which are being threatened from the perspective of the Accountant relating to Issue 4. **(4 marks)**
- (Total: 27 marks)**

Question 3 – (a)

Five-G Pte Ltd (“the Company”) has recently setup operations in Singapore to compete in the telecommunications industry. On 10 February 20x8, 500 mobile phones were bought (on credit terms) from an overseas supplier for Euro (EUR) 400 each. These mobile phones can be sold locally for Singapore dollar (S\$) 800 each. Half of the amount due to the overseas supplier was settled on 15 March 20x8 and the balance was paid on 30 April 20x8.

On 1 April 20x8, the Company secured contracts with a local medium sized enterprise to sell 300 mobile phones, each with a 2-year ‘Lite’ plan/contract, which includes unlimited local calls (in-coming and out-going) and 4 GB local data. The contract price is S\$250 per quarter per contract payable in arrears. The normal retail price of a 2-year ‘Lite’ plan (without any mobile handset) is S\$200 per quarter. Assume all mobile handsets were delivered on 1 April 20x8.

Exchange rates are as follows:

Date	EUR 1 to S\$
10 February 20x8	1.5550
15 March 20x8	1.5220
31 March 20x8	1.5480
30 April 20x8	1.5880
30 June 20x8	1.5810

Revaluation of foreign currency monetary balances and recognition of revenue from the plan occurs at the end of each calendar quarter.

Five-G Pte Ltd maintains a perpetual inventory system. Ignore effects of income tax and Goods and Services Tax arising from these transactions and events. The Company’s functional currency is Singapore dollars (S\$). Assume the effect of time value of money is immaterial.

**Exemplify
Question
Number**

Question 3 required:

7

- (a)** Record the journal entries from 1 January 20x8 to 30 June 20x8 in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)) 15 *Revenue from Contracts with Customers* and Singapore Financial Reporting Standards (International) (SFRS(I)) 1-21 *The Effects of Changes in Foreign Exchange Rate*. Show all necessary workings. **(18 marks)**
- (Total: 18 marks)**

Question 4 – (a), (b) and (c)

Mars Pte Ltd is a private limited company with a 31 December financial year end. The following transactions and events happened:

- (i) On 1 January 20x9, a loan of \$800,000 was extended to Jupiter Pte Ltd. Interest of 8% per year is payable annually in arrears and the principal matures five years later. The objective of Mars Pte Ltd is to hold such financial asset to collect the contractual cash flows. The 12-month expected credit loss is 2% of the principal amount. By 1 January 20y0, the 12-month expected credit loss has increased to 3% but the credit position of Jupiter Pte Ltd has not deteriorated significantly.
- (ii) A 3D printer was leased on 1 January 20x9 and an upfront deposit of \$50,000 was paid. Instalments of \$80,000 is payable each year in arrears for the next four years. Mars Pte Ltd has both the right to direct the printer's use and to obtain all the economic benefits from its use. The supplier does not have a right of substitution throughout the lease period, which is non-cancellable.

The interest rate implicit in the lease is 10%. Mars Pte Ltd adopts the straight-line depreciation method and this is recorded at the end of each financial year (FY). The estimated useful life of the printer is five years.

- (iii) On 4 February 20y0, a fire destroyed a significant portion of inventories which had a carrying amount of \$340,000 as at 31 December 20x9. After a week of investigations, it was discovered that an error was made in FY 20x9 Statement of Financial Position – the said inventories were overstated by \$15,000. Mars Pte Ltd's Financial Statements for the financial year ended 31 December 20x9 have not been authorised for issue yet.

Refer to Appendix B for Future Value and Present Value tables, if required. Ignore the effects of income tax arising from these transactions and events.

**Exemplify
Question
Number**

Question 4 required:

- 8** **(a)** Record the journal entries relating to item (i) from 1 January 20x9 to 31 December 20y0 in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)) 9 *Financial Instruments*. **(10 marks)**
- 9** **(b)** Record the journal entries relating to item (ii) from 1 January 20x9 to 31 December 20y0 in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 16 *Leases*. Show all necessary workings. **(13 marks)**
- 10** **(c)** Explain the appropriate action required relating to item (iii) for the financial year ended 31 December 20x9 in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 1-10 *Events after the Reporting Period*. **(4 marks)**
- (Total: 27 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.
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 identified 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.
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.

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).										
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