FP

Chartered Accountant
SINGAPORE

Singapore CA Qualification (Foundation) Examination

18 June 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 **TWENTY-SEVEN (27)** 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 these four (4) hotlines for an invigilator to assist you. The hotlines will be operational from one hour before the scheduled start time of the examination to one hour after the scheduled end time of the examination.

Name of invigilator	Hotline number
N.A.	N.A.
N.A.	N.A.
N.A.	N.A.
N.A.	N.A.

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

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

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	

Examplify 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 these four (4) hotlines for an invigilator to assist you.

Name of invigilator	**Hotline number**
N.A.	N.A.
N.A.	N.A.
N.A.	N.A.
N.A.	N.A.

Question 1 – (a) and (b)

The Statement of Financial Position of Delta Pte Ltd for the financial years ended 31 December 20x9 and 20x8 as well as the Statement of Profit or Loss for the financial year ended 31 December 20x9 is shown below:

Delta Pte Ltd
Statement of Financial Position
As at 31 December

	20x9	**20x8**
	$	**$**
Non-current assets		
- Property, plant and equipment	1,893,000	1,870,000
- Intangible assets	670,000	558,000
- Other investments	63,000	60,000
	2,626,000	2,488,000
Current assets		
- Inventories	75,000	72,000
- Trade and other receivables	299,000	268,000
- Cash and cash equivalent	166,000	345,000
	540,000	685,000
Total assets	**3,166,000**	**3,173,000**
Current liabilities		
- Trade and other payables	574,000	625,000
- Borrowings	50,000	120,000
- Provision for taxation	119,000	126,000
	743,000	871,000
Non-current liabilities		
- Borrowings	978,000	858,000
- Deferred tax liability	132,000	135,000
	1,110,000	993,000

	20x9	20x8
	$	**$**
Equity		
- Share capital	500,000	475,000
- Retained earnings	813,000	834,000
	1,313,000	1,309,000
Total equity and liabilities	**3,166,000**	**3,173,000**

Delta Pte Ltd

Statement of Profit or Loss

For the financial year ended 31 December 20x9

	$
Revenue	2,362,000
Operating expenses	(2,089,000)
Other income	10,000
Profit from operations	**283,000**
Finance expenses	(27,000)
Profit before income tax	**256,000**
Taxation	(45,000)
Profit after tax	**211,000**

The following information relating to the financial years ended 31 December 20x9 and 20x8 are detailed as follows:

(1) Other investments comprise quoted shares bought several years ago. These financial assets are accounted for at fair value through profit or loss. No quoted shares were bought or sold during 20x9.

(2) Property, plant and equipment is accounted for using the cost model. Vehicles with a historical cost of $83,000 and accumulated depreciation of $38,000 were disposed of for $50,000 during 20x9.

(3) Intangible assets are accounted for using the cost model. No intangible assets were disposed of during 20x9.

(4) During 20x9, depreciation and amortisation charge were $225,000 and $61,000 respectively.

(5) 'Other income' includes gain on disposal of vehicles as well as fair value gain and dividends received from other investments.

(6) Interest payable (included under 'Trade and other payables') as of 31 December 20x9 and 20x8 is $5,000 and $3,000 respectively.

(7) Borrowings amounting to $320,000 was repaid during 20x9.

Examplify Question Number	Question 1 required:
2	**(a)** Prepare the Statement of Cash Flows for Delta Pte Ltd for the financial year ended 31 December 20x9 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. **(25 marks)**
3	**(b)** Describe the mandate of the Accounting Standards Council Singapore in relation to the standard setting process. **(2 marks)** **(Total: 27 marks)**

Question 2 – (a) and (b)

Zulu Pte Ltd (Zulu) is a Goods and Services Tax (GST) registered business and its functional currency is the Singapore dollar (S$). During the financial year ended 30 June 20x9 ("FY 20x9"), Zulu entered into the following foreign currency transactions denominated in Malaysian ringgit (RM$):

- Purchase of plant and machinery on 1 January 20x9 on credit for RM$260,000 (excluding 7% GST). RM$150,000 was paid on 16 March 20x9, and the remaining balance was outstanding as of 30 June 20x9.

- Export sales (all zero-rated) during FY 20x9 amounted to RM$345,000. As at 1 July 20x8, trade receivables was RM$86,000, and cash collected during FY 20x9 totalled RM$371,000.

- On 3 February 20x9, 30,000 shares of Tango Berhad, a company listed on Malaysia stock exchange, were purchased for RM$4.50 per share. Transaction costs incurred on the same day was RM$800. Dividends of RM$0.40 per share was received on 22 May 20x9.

Other information was made available:

1) Only a S$ bank account is maintained by Zulu. Any receipts or payments denominated in a currency other than S$ is converted at spot rate.

2) Plant and machinery are depreciated on a straight-line basis over 60 months with zero residual value.

3) Tax allowance for plant and machinery can be claimed evenly over 3 years. Adjustments on the effects of deferred income tax arising from such transactions and events are made at the end of the financial year.

4) Foreign currency monetary amounts are revalued at the end of each financial year.

5) Quoted equity securities are accounted for at fair value through profit or loss. As of 30 June 20x9, the shares of Tango were trading at RM$4.10 per share.

6) Any GST input or output tax is settled at the end of each quarter and is based on the transaction's spot exchange rate.

7) Corporate tax rate is 17%.

8) Historical exchange rates:

Dates	***S$1 : RM$***
1 July 20x8	2.95
1 January 20x9	3.03
3 February 20x9	2.98
16 March 20x9	2.90
31 March 20x9	3.01
22 May 20x9	3.07
30 June 20x9	3.12
Average during FY 20x8	2.91
Average during FY 20x9	3.04

Examplify Question Number	Question 2 required:
4	**(a)** Record the journal entries relating to the financial year ended 30 June 20x9 in accordance with the relevant standards, in particular Singapore Financial Reporting Standard (International) (SFRS(I)) 1-21 *The Effects of Changes in Foreign Exchange Rates*, SFRS(I) 1-16 *Property, Plant and Equipment*, SFRS(I) 9 *Financial Instruments* and SFRS(I) 1-12 *Income Taxes*. Show all necessary workings. Round your answers to the nearest dollar. **(21 marks)**
5	**(b)** Outline any THREE factors Zulu's Management should consider when determining the functional currency of Zulu Pte Ltd. **(6 marks)** **(Total: 27 marks)**

Question 3 – (a), (b) and (c)

On 1 July 20x1, Beta Pte Ltd (Beta) acquired a leasehold warehouse for $1.5 million. The company's financial year-end is 31 December. Beta's policy is to account for such non-current assets using the cost model and depreciate it on a straight-line basis with no residual value over 15 years.

At the end of financial year ended 31 December 20x2 ("FY 20x2"), a structural defect was identified. As a result, the fair value of the warehouse was appraised to be $1.3 million. In the event of a sale of the warehouse, the commission payable to property agent and stamp duty payable is $25,000. The value in use of the warehouse is estimated by management to be $1.2 million.

After thorough investigations by civil engineers during financial year ended 31 December 20x4, it was confirmed that the structural defect was not as serious as initially assessed. Thus, as of 31 December 20x4, the recoverable amount was remeasured at $1.2 million.

Examplify Question Number	Question 3 required:
6	**(a)** Identify THREE other circumstances* when Beta Pte Ltd would be required to perform an impairment review of its leasehold warehouse in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)) 1-36 *Impairment of Assets*. **Note: As the physical damage to the leasehold warehouse has been mentioned in the question, do not repeat this point in your answer.* **(6 marks)**
7	**(b)** Record the journal entries for the financial years from 20x1 to 20x4 in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)) 1-16 *Property, Plant and Equipment* and SFRS(I) 1-36 *Impairment of Assets*. Show all necessary workings. Round your answers to the nearest dollar. Ignore any impact relating to income tax. **(11 marks)**
8	**(c)** Describe the cost constraint concept under the existing Conceptual Framework for Financial Reporting. Identify any TWO changes made in the Conceptual Framework for Financial Reporting issued in March 2018. **(6 marks)** **(Total: 23 marks)**

Question 4 – (a), (b) and (c)

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

<u>Issue 1</u>

The principal business of Foxtrot Pte Ltd (Foxtrot) is the sale of board games. Currently, its top three selling board games are Battle Ship, Fun City and Seven Wonders.

Foxtrot routinely sells Fun City and Seven Wonders as a set for $140. The standalone selling price for Fun City and Seven Wonders is $100 and $60 respectively.

Recently, it entered into a contract with Gamma Pte Ltd (Gamma), an online retail store, to sell 100 sets of all its top three products for $200 per set. The standalone selling price for Battle Ship is $80. On 10 January 20x9, a refundable deposit of $5,000 was paid by Gamma.

Foxtrot made the deliveries to Gamma on the following dates:

- 25 January 20x9 = 80 Battle Ship and 40 Fun City
- 8 February 20x9 = 100 Seven Wonders and 60 Fun City
- 3 March 20x9 = 20 Battle Ship

The remaining balance was fully settled by Gamma on 20 March 20x9.

<u>Issue 2</u>

Kilo Pte Ltd (Kilo) currently has 20 employees. Each employee is entitled to 14 days of paid sick leave and 18 days of paid annual leave each year. Unused sick leave cannot be carried forward, whereas unused annual leave can be carried forward indefinitely.

During the financial year ended 31 December 20x9 ("FY 20x9"), the average sick leave and annual leave taken is 4 days and 10 days respectively per employee. The average daily pay is $200 per employee.

There is no legal obligation for Kilo to pay its employees a bonus. Over the last few years, there is a practice of paying an average discretionary bonus of $3,000 per employee.

No adjustments have been made during FY 20x9 in respect of the above.

Issue 3

The draft Income Statement of Jaguar Pte Ltd shows a profit before tax of $999,900. The financial controller, Gary Sim, who is an ISCA member, makes an intentional immaterial adjustment to increase the profits to $1 million so that the management team qualifies for a bonus plan.

Examplify Question Number	**Question 4 required:**
9	**(a)** For Issue 1: Record the journal entries from 1 January 20x9 to 31 March 20x9 in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)) 15 *Revenue from Contracts with Customers*. Show all necessary workings. **(11 marks)**
10	**(b)** For Issue 2: Record the journal entries during 20x9 in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 1-19 *Employee Benefits*. Show all necessary workings. **(6 marks)**
11	**(c)** For Issue 3: Assess THREE consequences for Gary Sim, who is an ISCA member, in view of the provisions of Ethics Pronouncement (EP) 100 the *ISCA Code of Professional Conduct and Ethics*. **(6 marks)** **(Total: 23 marks)**

END OF PAPER

Appendix A

Standardised Common Content Reference Material

Principles of Financial Reporting

(For Jun 2020 Exam, last updated: 4 May 2020)

Important notes

1. This Standardised Common Content Reference Material (Reference Material) was first published on the SAC website on 4 May 2020.

2. The latest Reference Material will be incorporated into the examination question paper as an Appendix, and will be uploaded within your Exam in the e-exam software, Examplify.

RECOGNITION OF THE ELEMENTS OF FINANCIAL STATEMENTS

Recognition, Measurement, and Reporting of Assets and Liabilities

SFRS(I) 13 *Fair Value Measurement*

Three-level framework classifying fair value measurements based upon “inputs”, the assumptions that would be used by market participants when pricing the item being measured. Inputs can be either:

1. Observable (for identical or similar assets or liabilities),
2. Based on data that is readily available, or
3. Unobservable, based on assumptions by management.

SFRS(I) 1-36 *Impairment of assets*

An asset must not be carried in the financial statements at more than the highest amount to be recovered through its use or sale. Irrespective of whether there is any indication of impairment, an entity shall at the end of each reporting period:

a) test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount
b) test goodwill acquired in a business combination for impairment annually

Recoverable amount of an asset or a cash-generating unit (CGU) is the higher of its fair value less costs of disposal and its value in use.

SFRS(I) 1-2 *Inventories*

- Inventories are required to be stated at the lower of cost and NRV.
- Determination of cost of inventories and its subsequent recognition as an expense, including any write down to net realisable value (NRV) in the period the write down or loss occurs.
- Three methods of costing inventories: specific identification of costs method, first-In first-out costs method and weighted average costs method.
- Any reversal of the write-down is limited to the amount of the original write-down.

SFRS(I) 1-16 *Property, Plant and Equipment*

- Property, plant and equipment are initially recorded at cost. Subsequently, they can be carried either at:

  (a) Cost less any accumulated depreciation and any accumulated impairment losses; or
  (b) Revalued amount (Fair value at the date of revaluation), less any accumulated depreciation and any accumulated impairment losses.

If option (b) is chosen, all assets within a class of property, plant and equipment must be revalued and the valuations must be updated regularly.

- A revaluation **increase** shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit SFRS(I) 1-16 or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.
- A revaluation **decrease** shall be recognised in the profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- The gain or loss on the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item and is included in the profit or loss.

SFRS(I) 1-40 *Investment Property*

- Investment property is usually owned. It may be held by a lessee under a finance lease.
- An investment property is measured initially at cost, including transaction costs. The cost of a property interest held under a lease is measured in accordance with SFRS(I) 16 *Leases*.
- For subsequent measurement, an entity must adopt either the fair value model or the cost model for all investment properties. All entities must determine fair value,

for measurement (if the entity uses the fair value model) or for disclosure (if it uses the cost model). Fair value reflects market conditions at the end of the reporting period.

- Under the **fair value model**, investment property is remeasured at the end of each reporting period. Changes in fair value are recognised in profit or loss as they occur.
- Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- Under the **cost model**, investment property is measured at cost less accumulated depreciation and any accumulated impairment losses.

<u>SFRS(I) 1-32 *Financial Instruments: Presentation*</u>

- For presentation, financial instruments are classified into financial assets, financial liabilities and equity instruments.
- Differentiation between a financial liability and equity depends on whether there is an obligation to deliver cash (or some other financial asset).
- A compound financial instrument, such as a convertible note, is split into equity and liability components. When the instrument is issued, the equity component is measured as the difference between the fair value of the compound instrument and the fair value of the liability component.
- Financial assets and financial liabilities are offset only when the entity has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.
- Classification of a financial instrument as a financial liability or equity determines the treatment of the interest, dividends, losses or gains on the financial instrument as items of income or expense, or as changes in equity.
- Dividends on shares classified as liabilities are recognised as expenses and affect profit or loss.

<u>SFRS(I) 7 *Financial Instruments: Disclosures*</u>

For presentation, financial instruments are classified into financial assets, financial liabilities and equity instruments. Differentiation between a financial liability and equity depends on whether there is an obligation to deliver cash (or some other financial asset).

A compound financial instrument, such as a convertible note, is split into equity and liability components. When the instrument is issued, the equity component is measured as the difference between the fair value of the compound instrument and the fair value of the liability component.

Financial assets and financial liabilities are offset only when the entity has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Classification of a financial instrument as a financial liability or equity determines the treatment of the interest, dividends, losses or gains on the financial instrument as items of income or expense, or as changes in equity. Dividends on shares classified as liabilities are recognised as expenses and affect profit or loss.

SFRS(I) 9 *Financial Instruments*

Financial assets should be classified and measured at fair value, with changes in fair value recognized in profit and loss as they arise ("FVPL"), unless restrictive criteria are met for classifying and measuring the asset at either Amortized Cost or Fair Value Through Other Comprehensive Income ("FVOCI").

After initial recognition, an entity shall measure a financial asset at:

(a) amortised cost;
(b) fair value through other comprehensive income; or
(c) fair value through profit or loss.

Objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information, including that which is forward-looking.

SFRS(I) 16 *Leases*

A contract is or contains a lease if the contract conveys the right to control the use of identified asset for a period in exchange for consideration.

Control is conveyed where the customer has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined.

Accounting by Lessees:

Upon lease commencement a lessee recognises a right-of-use asset and a lease liability.

The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations or similar.

After lease commencement, a lessee shall measure the right-of-use asset using a cost model, unless:

i. the right-of-use asset is an investment property and the lessee fair values its investment property under IAS 40; or
ii. the right-of-use asset relates to a class of PPE to which the lessee applies IAS 16's revaluation model, in which case all right-of-use assets relating to that class of PPE can be revalued.

Under the cost model a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment.

SFRS(I) 1-12 *Income Taxes*

A deferred tax asset or liability arises if recovery/settlement of asset/liabilities affect the amount of future tax payments.

A deferred tax asset is recognised to the extent that it is probable that a tax benefit will be realised in the future. This applies to unused tax losses and unused tax credits.

Deferred tax is measured at tax rates expected to apply when the deferred tax asset/liability is realised/settled. The tax rates used must be enacted or substantially enacted by the reporting period. A deferred tax asset or liability is not discounted.

The tax consequences of transactions and events are recognised in the same financial statement as the transaction or event – that is, current and deferred taxes are:

a) recognised in equity, if the items to which they relate are credited or charged directly to equity.
b) recognised as identifiable assets or liabilities at the acquisition date, if they arise as part of a business combination.
c) otherwise, recognised as tax income or expense.

SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*

Provisions

A constructive obligation arises from the entity's actions, through which it has indicated to others that it will accept certain responsibilities, and as a result has created an expectation that it will discharge those responsibilities.

A provision is measured at the amount that the entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. Risks and uncertainties are taken into account in the measurement of a provision. A provision is discounted to its present value.

Contingent Liabilities

Contingent liabilities are possible obligations whose existence will be confirmed by uncertain future events that are not wholly within the control of the entity. Contingent liabilities also include obligations that are not recognised because their amount cannot be measured reliably, or settlement is not probable.

Contingent assets are possible assets the existence of which will be confirmed by the occurrence or non-occurrence of uncertain future events that are not wholly within control of the entity. Contingent assets are not recognised in the statement of financial position. Contingent assets are disclosed when it is more likely than not that an inflow of benefits will occur. However, when the inflow of benefits is virtually certain an asset is recognised in the statement of financial position because that asset is no longer considered to be contingent.

Business Implications

SFRS(I) 1-37 restricts the circumstances in which a provision can be recognised. It does not allow a provision to be created for the possibility of something occurring in future. There must be a present obligation (a liability) at the end of the reporting period.

Although provisions are not recognised for future operating losses, the expectation of future operating losses triggers an impairment test of the operation’s asset. The impairment test may result in the recognition of an impairment loss. Furthermore, the present obligation under an onerous contract is recognised and measured as a provision.

The measurement of a provision requires judgment about the amount, timing and risks of the cash flows required to settle the obligation. Caution is needed in making judgment under conditions of uncertainty. However, uncertainty does not justify the creation of excessive provisions.

SFRS(I) 1-19 *Employee Benefits*

Employee benefits are forms of consideration given by an entity in exchange for service rendered by employees. These include:

a) short-term employee benefits: to be consumed within 12 months of service (e.g. salaries, bonuses, holiday pay, and sick pay);
b) post-employment benefits: payable after completion of employment (e.g. pensions, life insurance, and medical care);
c) other long-term benefits: other benefits not payable within twelve months (e.g. long-service leave); and
d) termination benefits: payable upon voluntary or involuntary termination of employee's contract (e.g. early retirement, redundancy pay).

Recognition, Measurement, and Reporting of Revenue and Expenses

SFRS(I) 15 *Revenue from Contracts with customers*

- Combination of contracts (excluding Construction Contracts);
- Unbundling of physical and service elements; and
- Deferred, variable and contingent consideration

Revenue Recognition – Application of Revenue from Contracts with Customers
Step 1**:** Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3**:** Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

SFRS(I) 1-38 *Intangible Assets*

Internally generated goodwill is within the scope but is not recognised as an asset because it is not an identifiable resource.

Expenditure for an intangible item is recognised as an expense, unless the item meets the definition of an intangible asset, and:

- It is probable that there will be future economic benefits from the asset; and
- The cost of the asset can be reliably measured.

The costs of generating other internally generated intangible assets are classified into a research phase and a development phase. Research expenditure is recognised as an expense. Development expenditure that meets specified criteria is recognised as an intangible asset.

Intangible assets are measured initially at cost.

An intangible asset with a finite useful life is amortised. An intangible asset with an indefinite useful life is not amortised but is tested annually for impairment.

When an intangible asset is disposed of, the gain or loss on disposal is included in profit or loss.

SFRS(I) 1-23 *Borrowing Costs*

Borrowing costs are finance charges that are directly attributable to the acquisition, construction or production of a qualifying asset that forms part of the cost of that asset, i.e. such costs are capitalised. All other borrowing costs are recognised as an expense.

Borrowing costs is interest and other costs incurred by an entity in connection with the borrowing of funds. Borrowing costs is interest and other costs incurred by an entity in connection with the borrowing of funds.

Borrowing costs eligible for capitalisation:

Specific borrowings:

To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

General borrowings:

To the extent that an entity borrows funds generally and uses it for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it is incurred.

OTHER STANDARDS ON PRESENTATION AND DISCLOSURE OF FINANCIAL STATEMENTS

SFRS(I) 1-8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

A change in accounting estimate is an adjustment of the carrying amount of an asset or liability, or related expense, resulting from reassessing the expected future benefits and obligations associated with that asset or liability.

- Selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies
- Changes in accounting estimates
- Correction of errors

SFRS(I) 1-10 *Events after the Reporting Period*

Events after the reporting period date refer to those events that occur between the reporting period and the date when the financial statements are authorized for issue.

Adjusting events provide evidence of conditions that existed at the reporting period.

Non-adjusting events reflect conditions that arise only after the reporting period.

SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*

A foreign currency transaction should be recorded initially at the rate of exchange at the date of the transaction (use of averages is permitted if they are a reasonable approximation of actual).

At the end of each reporting period:

a) Foreign currency monetary items should be reported using the closing rate;
b) Non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of transaction; and
c) Non-monetary which are carried at fair value denominated in foreign currency should be reported using the exchange rates that existed when the fair values were determined.

Functional currency is the currency of the primary economic environment in which the entity operates.

PREPARATION OF FINANCIAL STATEMENTS FOR A SINGLE ENTITY

SFRS(I) 1-1 *Presentation of Financial Statements*

Prepare a complete set of financial statements
- A statement of financial position as at the end of the period;
- A statement of profit or loss and other comprehensive income for the period;

- A statement of changes in equity for the period;
- A statement of cash flows for the period;
- Notes, comprising a summary of significant accounting policies and other explanatory information; and
- Comparative information in respect of the preceding period.
- the size and composition of the contributed equity and borrowings of the entity.

<u>SFRS(I) 1-7 *Statement of Cash Flows*</u>

- Operating activities are the principal revenue-producing activities of the entity. Cash flows from operating activities are disclosed either using the:
  a) direct method (disclosure of major categories of gross cash receipts and payments; or
  b) indirect method (profit or loss for the period is adjusted for non-cash items (such as depreciation, foreign exchange losses etc.) and income or expense related items related to investing and financing activities to determine the operating cash flows.
- Investing activities are those expenditures incurred with an intention to generate future income and cash flows.
- Financing activities are those expenditures incurred that result in changes in the size and composition of the contributed equity and borrowings of the entity.

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
Assess	Make a judgment about the value, quality, outcomes, results, or size. Often there will be a qualifier in the instruction, which will tell you exactly what to **assess**. For instance, "**Assess** the adequacy of the disclosures in the financial statements relating to …". Professional judgment and scepticism (a questioning mind) are called for when making an **assessment**. **Appraise** and **Assess** are interchangeable.
Describe	**Describe** requires you to provide the characteristics and features of an item or situation without going into step-by-step **detail**.
Identify	**Identify** is similar to **list**, but requires you to also provide an **explanation** as to why the item/s that you have i**dentified** 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.
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.