

## SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

**MODULE:** Principles of Financial Reporting (PFF)

**EXAMINATION DATE:** 11 December 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 December 2019 sitting was satisfactory and Candidates were generally adequately prepared. About three-quarter of the Candidates passed this exam and several did exceptionally well, obtaining a pass with distinction and high distinction. PFF continues to be an e-Exam format and a restricted open book format with Candidates being able to bring in a double-sided A4 page of personal notes for reference.

Majority of the Candidates performed well for the first question relating to the preparation of the Statement of Profit and Loss and Other Comprehensive Income and Statement of Financial Position in accordance with SFRS(I) 1-1 *Presentation of Financial Statements*.

Candidates' performance for Question 2, which covered the new lease standard and income tax, was fair. While Candidates were able to demonstrate their understanding of how leases were accounted for by a lessee, a handful of Candidates were unable to compute deferred tax in accordance with SFRS(I) 1-12 *Income Taxes*.

Question 3 covered several topics relating to general-purpose financial statements, events after reporting date and accounting policies, changes in accounting estimates and errors. Candidates' performance in general was mixed.

Question 4 tested Candidates on revenue from contracts with customer, accounting of unquoted equity investments and effects of changes in foreign exchange rates. This question was poorly attempted possibly due to poor time management and inadequate understanding of the relevant standards.

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 be found on the SAC website ([www.sac.gov.sg](http://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](http://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 regard to the preparation of the Statement of Profit or Loss and Other Comprehensive Income in **part (a)**, most Candidates did well. However, common errors made by some Candidates included incorrect classification of carriage inwards and carriage outwards, as well as wrong classification of fair value gain arising from investment property, which should be in the Profit or Loss section.

For **part (b)**, Candidates were required to prepare the Statement of Financial Position. Candidates were generally able to present the Statement of Financial Position in an appropriate format.

Candidates generally were able to show detailed workings and computations on how line-item figures were obtained in the face of the financial statements.

#### Question 2

Candidates' performance for this question, which covered the new lease standard and income tax, was fair.

For **part (a)**, the majority of the Candidates were able to demonstrate their understanding of how leases are accounted for by lessees. However, many Candidates did not compute the initial amount of right-of-use asset correctly – the initial payment of S\$5,000 should be included.

Many Candidates performed poorly for **part (b)** relating to the computation of deferred tax. The common error was the failure to derive temporary taxable difference. Also, there appeared to be a lack of understanding that income tax expense comprises of current income tax and deferred income tax – the former was often omitted when preparing the journal entry.

For **part (c)**, Candidates were required to identify situations where lease accounting need not be applied. While most Candidates were able to identify both situations, a handful did not provide appropriate examples.

#### Question 3

This question covered several topics relating to general-purpose financial statements, events after reporting date and accounting policies, changes in accounting estimates and errors. Overall, Candidates' performance was mixed.

For **part (a)**, many Candidates identified customers, management, regulators and employees as primary users of financial statements which are incorrect. Candidates should be cognizant that primary users of general-purpose financial statements are existing and potential investors, lenders and other creditors only.

For **part (b)**, a majority of the Candidates were able explain how events after the reporting period should be dealt with. This included correctly identifying whether such events were adjusting or non-adjusting events.

Generally, **part (c)** was poorly attempted because many Candidates were not aware that a change from cost model to fair value model for investment properties is considered a change in accounting policy, not a change in accounting estimate. Also, very few Candidates realized that a third statement of financial position at the beginning of the comparative period i.e. 1 January 20x1 needs to be presented.

#### Question 4

Revenue from contracts with customer, accounting of unquoted equity investments and effects of changes in foreign exchange were covered in this question.

Majority of the Candidates performed poorly for this question. This may be a case where Candidates did not spend adequate time on this question due to poor time management, and have not studied and covered the entire syllabus for this module.

Common errors included, inter alia:

- Omitted the GST impact for the transaction with the local customer;
- When recording revenue over time for technical support for FY 20y1, Candidates failed to split the corresponding revenue entry between contract asset/ accrued revenue and unearned revenue;
- Commission and brokerage (aka transaction) costs incurred on the purchase of Softech shares were erroneously expensed;
- Softech shares were denominated in US dollars (USD), whereas transaction costs were denominated in Singapore dollars (SGD). Candidates failed to recognise the difference in currency and applied the wrong exchange rate; and
- Wrongly recognised fair value changes on financial assets in Profit or Loss (instead of Other Comprehensive Income).