

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Principles of Financial Reporting (PFF)

EXAMINATION DATE: 7 December 2020

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 2020.

The overall performance for the December 2020 sitting was satisfactory - Candidates were generally less prepared for this examination as compared to previous examination sessions. PFF examinations is administered as e-Exam format. Due to the COVID-19 situation, this is the second time Candidates sat for the e-Exam remotely.

The first question relating primarily to the accounting of financial assets was fairly attempted by the Candidates. But the part relating to how financial liabilities should be accounted for was generally poorly answered.

A significant majority of the Candidates performed reasonably well for the second question relating to the preparation of the Statement of Cash Flows. However, there were a handful of Candidates who left the Statement of Changes in Equity blank.

The third question tested Candidates' knowledge and understanding of leases (from a lessee's perspective), property, plant and equipment, income tax (including deferred tax) and accounting policies, changes in accounting estimates and errors was in general mixed.

Possibly due to poor time management and inadequate preparation of the relevant standards, the last question covering several topics including impairment testing, inventories, effects of changes in foreign exchange rates and events after reporting period, was poorly attempted.

To do well for this module, Candidates should read and do more exercises from the main accounting textbooks used in university accounting courses (a list of suggested textbooks is available from the SAC website (<https://www.sac.gov.sg/scaq>)) 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 also strongly encouraged to use these documents as additional practice resources. This will build their foundation on the topics covered in this module.

Section 2
Analysis of individual questions

Question 1

This question assessed Candidates on SFRS(I) 9 *Financial Instruments*. **Part (a)** required Candidates to record the journal entries for bonds subsequently measured at amortised cost. Candidates were able to prepare the journal entries, but many were unable to derive the correct figures. Some Candidates prepared the journal entries for fair value through profit or loss instead, which was required in the second part.

Part (b) required Candidates to record the journal entries for bonds subsequently measured at fair value through profit or loss. Common mistakes included omitting the fair value gain for mid-year or derived the wrong figures for the journal entries.

Part (c) required the Candidates to explain how financial liabilities are initially and subsequently measured. Many Candidates, however, prepared the journal entries, and focused on the treatment for the transaction cost and discussed at length the treatment for financial asset and the corresponding conditions to meet (cash flow test and business model test). Most of the Candidates also did not segregate the differences between financial liabilities held for trading and all other financial liabilities.

Question 2

Overall, a significant majority performed well for **part (a)** by demonstrating competence in preparing Statement of Cash Flows 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*.

Pleasingly, Candidates showed detailed workings and computations on how line-item figures were obtained in the face of the Statement of Cash Flows. However, some Candidates were not able to compute the income tax paid and purchase of property, plant and equipment correctly.

For **part (b)**, a handful of Candidates left the Statement of Changes in Equity blank. For those who attempted, a common mistake made was to combine the profit for the year and other comprehensive income – this is incorrect, and they should be presented separately.

Candidates did reasonably well for **part (c)**. They were able to articulate the fundamental qualitative characteristics of useful financial statements and explain the attributes of relevance and faithful representation.

Question 3

For **part (a)**, most Candidates could compute the right of use asset, account for leases and prepare the depreciation journal entry correctly.

A majority of the Candidates did poorly for **part (b)**. A common mistake made was not computing the carrying amount and tax base correctly. The income tax expense and deferred tax liability for 30 Jun 20x7 should be calculated as the incremental amount compared to 30 Jun 20x6.

Most Candidates did well for **part (c)**, and demonstrated their understanding that errors need to be corrected retrospectively. However, a handful of Candidates erroneously assessed that a change in depreciation method is a change in accounting policy.

Question 4

A handful of Candidates left **part (a)** blank. This could be due to poor time management and inadequate preparation of the impairment of assets standard. Those who attempted this part performed poorly. Common mistakes made include:

- Incorrectly computing the carrying amount of the CGU;
- Not working out the FVLCD and considering it when estimating recoverable amount; and
- Erroneously allocating impairment loss to trade and other receivables and/or trade and other payables.

Part (b) required Candidates to record the journal entries relating to sale and purchase of inventories, and application of effects of changes in foreign exchange rates. A majority of the Candidates did not compute the foreign exchange gain / (loss) for the monetary items correctly as of 30 Jun 20x0.

Many Candidates answered **part (c)** incorrectly. The financial statements should not be prepared on a going concern basis, notwithstanding the outbreak of a deadly virus which has a significant adverse impact on Mercury's ability to operating as a going concern occurred after the end of reporting period.