PP

Chartered Accountant SINGAPORE

Singapore CA Qualification Examination

18 June 2018

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 **SEVENTEEN (17)** pages (including this instruction sheet). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is an open book examination. During the examination, you are allowed to use your laptop and any calculators that comply with the SAC's regulations. Please note that mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
4. Assume that all dollar amounts are in Singapore dollar (S$) unless otherwise stated.
5. This examination paper is the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

6. 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 2018.

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

SINGAPORE ACCOUNTANCY COMMISSION

Question 1 – (a) and (b)

From date of initial investment to 31 December 20x6, P Co has had ‘control’ over Saturn Co (Saturn) and Saturn’s subsidiary, Venus Co (Venus). The abridged 20x6 financial statements of P Co and its subsidiaries are shown below.

Income Statement and partial Statement of Changes in Equity for the year ended 31 December 20x6

	P Co	**Saturn**	**Venus**
Profit before tax	6,340,000	1,500,000	320,000
Tax	(1,268,000)	(300,000)	(64,000)
Profit after tax	5,072,000	1,200,000	256,000
Dividends declared	(300,000)	(100,000)	(56,000)
Profit retained	4,772,000	1,100,000	200,000
Retained earnings, 1 Jan 20x6	3,800,000	1,100,000	600,000
Retained earnings, 31 Dec 20x6	**8,572,000**	**2,200,000**	**800,000**

Statement of Financial Position as at 31 December 20x6

	P Co	**Saturn**	**Venus**
Fixed assets, net book value	4,800,000	1,980,000	1,521,000
Investment in Saturn	4,200,000		
Investment in Venus		980,000	
Inventory	590,000	389,000	420,000
Other assets	2,980,000	1,689,000	471,000
Cash	300,000	120,000	82,540
Total Assets	**12,870,000**	**5,158,000**	**2,494,540**
Accounts payable	798,000	1,378,000	504,540
Share capital	3,500,000	1,580,000	1,000,000
Retained earnings	8,572,000	2,200,000	800,000
Revaluation reserves			190,000
Equity and Liabilities	**12,870,000**	**5,158,000**	**2,494,540**

Additional information

1. Apply a tax rate of 20% on fair value differentials and other adjustments. Dividend income is tax-exempt.

2. Information on the ownership interests in Saturn is as follows:

Date of acquisition	1 Jan 20x4
Percentage acquired by P Co on date of acquisition	90%
Shareholders' equity of Saturn at date of acquisition	***$***
Share capital	1,580,000
Retained earnings	660,000
	2,240,000
Fair value of non-controlling interests as at date of acquisition	445,000

Non-controlling interests are to be recognised at full fair value on acquisition date.

On 1 January 20x4, the net identifiable assets of Saturn were at fair value, except for an unrecognised contingent liability. During 20x3, Saturn as defendant lost a litigation case for breach of contract to an unrelated plaintiff. Saturn did not recognise the liability because it had also filed a counter-suit against the plaintiff and did not deem the liability as probable, even though there is a present obligation under the court verdict. At acquisition date, due diligence carried out by P Co affirmed the following possible outcomes of the litigation case:

Amount of damages	Probability
$100,000	20%
$750,000	10%
$0	60%
$500,000	10%

On 1 October 20x5, Saturn paid an amount of $500,000 in full and final settlement of the damages.

3. Information on the ownership interests in Venus, a subsidiary of Saturn, is as follows:

Date of acquisition by Saturn	1 July 20x3	
Percentage acquired by Saturn	60%	
	1 July 20x3	1 Jan 20x4
Shareholders' equity of Venus	***$***	***$***
Share capital	1,000,000	1,000,000
Retained earnings	360,000	320,000
Revaluation reserves	120,000	140,000
	1,480,000	**1,460,000**

Fair value of non-controlling interests at 1 July 20x3	640,000
Fair value of non-controlling interests at 1 January 20x4	974,000

Venus had valuable intellectual property rights that were not recognised on its statement of financial position. The intellectual property had an infinite useful life and its benefits would be realised through use. P Co applied the cost model in accounting for intangible assets.

The fair value of the intellectual property rights at the following dates were as follows:

1 July 20x3	$700,000
1 January 20x4	$900,000

Impairment reviews showed the following recoverable amounts of the intellectual property rights at the following dates:

31 Dec 20x5	$720,000
31 Dec 20x6	$920,000

4. On 1 October 20x5, Venus sold surplus inventory to P Co at the transfer price of $150,000 when the original cost was $80,000. Ten percent (10%) of the inventory items were re-sold to third parties during 20x5 and an additional eighty percent (80%) were re-sold to third parties during 20x6, leaving ten percent (10%) unsold at 31 December 20x6.

5. P Co and the Group carry fixed assets at revalued amounts. The revaluation reserves of Venus as at 31 December 20x5 was $210,000. The revaluation reserves of P Co and Saturn were immaterial as the carrying amounts of fixed assets were close to their revalued amounts.

Examplify Question Number	Question 1 required:
	Apply Singapore Financial Reporting Standard (International) (SFRS(I)) 3 *Business Combinations* and SFRS(I) 10 *Consolidated Financial Statements* to answer the following.
	(a) Prepare the relevant consolidation entries for the year ended 31 December 20x6 for P Co's Group showing:
1	**(i)** Elimination of investment in Saturn and Venus at acquisition date; **(7 marks)**
2	**(ii)** Other consolidation adjustments relating to Saturn; and **(8 marks)**
3	**(iii)** Other consolidation adjustments relating to Venus. **(15 marks)**
4	**(b)** Analytically determine (proof of balances) the balance of total non-controlling interests in the consolidated statement of financial position of P Co as at 31 December 20x6, independently of the consolidation accounting entries in (a) above. Do not list the consolidation accounting entries to support the above balance. **(10 marks)**
	(Total: 40 marks)

Question 2 – (a), (b), and (c)

Prism Co (Prism), a vending machine equipment operator, is keen to enter the business of operating vending machines that sell pre-packaged popular hawker fare in Singapore. However, Prism has no expertise in the preparation of the pre-packaged meals. It entered into a joint arrangement with Star Foods, an expert in this field, to have joint control of Svend Co (Svend), the name of the newly incubated joint arrangement. Prism has two options:

Option 1: Structure the joint arrangement as a 'joint operation'; or
Option 2: Structure the joint arrangement as a 'joint venture'.

In either option, the agreed allocation between Prism and Star Foods of their interests in the joint operation or joint venture is 50% and the initial outlay by Prism is $100,000.

The financial statements for the first year of activity of Svend are shown below together with the financial statements of Prism for the same period before incorporating the effects of the joint arrangement.

Income Statement and Statement of Changes in Equity (extract) for the year ended 31 December 20x6

	Prism	**Svend**
Revenues	3,000,000	450,000
Expenses	(2,505,000)	(189,000)
Profit before tax	495,000	261,000
Tax	(99,000)	(52,200)
Profit after tax	396,000	208,800
Dividends	(300,000)	-
Profit retained	96,000	208,800
Retained earnings, 1 Jan 20x6	1,200,000	
Retained earnings, 31 Dec 20x6	**1,296,000**	**208,800**

Statement of Financial Position as at 31 December 20x6

	Prism	Svend
Fixed assets, net book value	3,086,000	150,000
Investment in Svend	100,000	
Inventory	800,000	350,000
Accounts receivable	520,000	20,000
Cash	70,000	48,800
Total assets	**4,576,000**	**568,800**
Current liabilities	780,000	160,000
Long-term liabilities	500,000	-
Share capital	2,000,000	-
Investors' initial contribution	-	200,000
Retained earnings	1,296,000	208,800
Equity and Liabilities	**4,576,000**	**568,800**

Examplify Question Number	
5	**Question 2 required:**

(a) Applying the requirements of Singapore Financial Reporting Standard (International) (SFRS(I)) 11 *Joint Arrangements*, determine the following amounts for Prism Co's financial statements for the year ended 31 December 20x6 incorporating the results and financial position of Svend under each of the following options:

Option 1: Svend as a joint operation of Prism Co; and
Option 2: Svend as a joint venture of Prism Co.

(i) Revenue;

(ii) Net profit after tax;

(iii) Investment in Svend;

(iv) Fixed assets;

(v) Total assets;

(vi) Total liabilities; and

(vii) Total equity.

(9 marks)

Examplify Question Number	
6	**(b)** Calculate the following ratios for Prism Co after incorporating Svend under Option 1 and Option 2. Option 1: Svend as a joint operation of Prism Co; and Option 2: Svend as a joint venture of Prism Co. **(i)** Net profit margin; **(ii)** Return on equity; **(iii)** Return on assets; **(iv)** Assets turnover ratio; and **(v)** Total liabilities to equity ratio. **(5 marks)**
7	**(c)** Based on the ratios calculated in (b) above, propose a suitable investment vehicle (joint operation or joint venture) to the Board of Prism Co. Justify your opinion. **(2 marks)** . **(Total: 16 marks)**

Question 3 – Part I and Part II

Build-P Co (BPC) is a construction company with a backlog of unresolved accounting issues due to staff turnover. First, BPC embarked on a construction project that began two years ago but it has not recognised any profit from inception of the project to the beginning of the current year, 1 January 20x6 **(Part I)**. Second, BPC issued United States dollar (US$) denominated convertible bonds on 1 July 20x6 to finance its construction activities. BPC does not know how to apply the appropriate accounting standards on the accounting of the convertible bond and its translation to BPC's functional currency, the Singapore dollar (S$) **(Part II)**. BPC seeks your expert help in resolving these two issues.

Part I

BPC entered into a fixed price contract to construct a building for Crimson Co on 1 July 20x4. Details are as follows:

Contract price	$25,000,000	
Date of contract	1 July 20x4	
Expected date of completion	30 Sep 20x6	
Current expenditure	Year ended 31 Dec 20x4 **S$**	Year ended 31 Dec 20x5 **S$**
Architects' fees	130,000	50,000
Material costs	3,600,000	3,570,000
Direct labour and overheads	1,450,000	2,500,000
Sub-contractors' costs	1,200,000	1,875,000
Depreciation of construction equipment	100,000	120,000
Insurance for construction project	26,000	30,000
Share of construction supervisory costs	25,000	25,000
General and administrative costs	398,000	400,000
Rental of construction equipment	45,000	89,000
Wastage of materials	15,000	32,000
Estimated further costs to be incurred on the contract	9,000,000	4,500,000

Examplify Question Number	**Question 3 Part I required:**
	In relation to Build-P Co:
8	**(a)** Using costs as a measure of completion and assuming Build-P Co has determined that it satisfies its performance obligations over time on this contract, calculate the measure of progress (i.e. percentage of completion) (rounded to 4 decimal places) for 20x4 and 20x5 in accordance with Singapore Financial Reporting Standard (International) (SFRS (I)) 15 *Revenue from Contracts with Customers.* **(5 marks)**
	(b) Determine the following amounts for the year ended 31 December 20x4 and year ended 31 December 20x5. Ignore income tax.
9	**(i)** Current revenue; and **(2 marks)**
10	**(ii)** Current construction profit. **(2 marks)**
11	**(c)** Assuming that tax is on a completed contracts basis and the tax rates for 20x4 and 20x5 were 20% and 22% respectively, calculate the related tax expense on the construction project for the year ended 31 December 20x4 and year ended 31 December 20x5. (**4 marks)**

Examplify Question Number

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(d) Prepare the journal entry to correct the accounting for the construction contract and the related tax effects retrospectively as at 1 January 20x6 in accordance with Singapore Financial Reporting Standard (International) SFRS(I) 1-8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

(3 marks)

Part II

Details of the US$ convertible bonds issued by Build-P Co (BPC) are as follows:

Date of issue (inception date)	1 July 20x6
Maturity date	30 June 20x9
Proceeds from the issue	US$1,500,000
Principal amount	US$1,200,000
Cash interest rate	4.00% p.a.
Effective interest rate	6.00% p.a.
Fair value of the bond without the conversion option	US$1,135,848

Interest is paid annually on 30 June. However, accrued interest is paid to bondholders on conversion of the bonds.

On 31 December 20x6, forty five percent (45%) of the bondholders after receiving the interest payment due to them, converted their bonds to shares at a conversion rate of $1 of principal amount for one unit of shares. The market price of BPC's share on 31 December 20x6 was S$5.00 per share.

The functional currency of BPC is the Singapore dollar (S$). The exchange rates of S$ to US$1 are as follows:

Date	**Spot rate**
1 July 20x6	1.30
Average rate for 2nd half 20x6	1.35
31 December 20x6	1.38

Examplify Question Number	
	Question 3 Part II required:
	(a) Prepare the journal entries to record the following transactions in Singapore dollars in accordance with Singapore Financial Reporting Standard (International) (SFRS (I)) 1-21 *The Effects of Changes in Foreign Exchange Rates* and SFRS (I) 1-32 *Financial Instruments: Presentation* in the books of Build-P Co (BPC). Bond amortisation tables are not required. Ignore tax effects.
13	**(i)** Issue of the bond on 1 July 20x6; **(4 marks)**
14	**(ii)** Interest expense incurred on the bond for the period from 1 July 20x6 to 31 December 20x6; and **(5 marks)**
15	**(iii)** Conversion of the bond on 31 December 20x6. **(4 marks)**
	(Total: 29 marks)

Question 4 – (a)

In Asia, e-commerce plays a significant role in bringing together consumers and suppliers from different corners of a vast continent into a digital market place. Asian e-commerce companies such as *Alibaba.com*, *Lazada*, *GrabTaxi,* and *Flipkart* are examples of a growing number of companies that use technology to bring goods and services to Asian consumers.

At the same time, Singapore Financial Reporting Standard (International) (SFRS(I)) 15 *Revenue from Contracts with Customers*, which is based on International Financial Reporting Standard (IFRS) 15 of the same name and which becomes effective for reporting periods beginning on or after 1 January 2018, has the challenge of presenting timeless principles that deal with revenue situations in an ever-changing economic landscape.

Examplify Question Paper 16

Question 4 required:

(a) Identify and explain any THREE significant accounting challenges in e-commerce with respect to revenue recognition or measurement issues and explain specifically whether and how the requirements of Singapore Financial Reporting Standard (International) (SFRS(I)) 15 *Revenue from Contracts with Customers* are able to deal effectively with the challenges. The challenges that you identify need not be unique to e-commerce but they must be significant to e-commerce in the light of its typical revenue arrangements. Provide an example for each of the challenges to support your explanations.

(15 marks)

(Total: 15 marks)

END OF PAPER

