Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Advanced Financial Reporting (AFF)

EXAMINATION DATE: 20 June 2023

Section 1
General comments

Overall, the Candidates have performed better in the Advanced Financial Reporting (AFF) June 2023 examinations. However, it was noted that Candidates generally performed better in the quantitative components than qualitative components. Most of the Candidates underperformed for Question 2 Part II (hedging instrument) and Question 3 (intangible assets and impairment). Further analysis and common errors made by the Candidates are detailed in Section 2.

Candidates are reminded that the AFF module builds upon the knowledge and skills studied in the Principles of Financial Reporting (PFF) module. Candidates are expected to demonstrate a sound knowledge of and ability to apply the Conceptual Framework and the Singapore Financial Reporting Standards (International) (SFRS(I)), to produce a complete set of financial statements for a single entity and simple Group. Candidates are also expected to be able to explain and advise on the application of the SFRS(I), including the appropriate treatment and disclosure requirements, demonstrating appropriate professional judgement.

Candidates are reminded to be well-prepared across the range of SFRS(I) and not leave any SFRS(I) uncovered in their revision. Candidates should also be focused and relevant in their answers of the theoretical components in the paper. Copying and pasting of the contents of the relevant paragraphs from the SFRS(I) will receive little or no marks for the question.

Marks can only be awarded for the application of the requirements to the facts of the case.

Section 2
Analysis of individual questions

Question 1

This question was on consolidated financial statements involving a Group comprising a subsidiary and an associate. It required Candidates to prepare consolidation and equity accounting journal entries in **part (a)** and to provide independent proof for the net profit (or loss) after tax attributable to the parent in **part (b)**. This question required the application of SFRS(I) 3 *Business Combinations*, SFRS(I) 10 *Consolidated Financial Statements* and SFRS(I) 1-28 *Investments in Associates and Joint Ventures*.

Part (a) was well attempted by the Candidates. However, many Candidates misread the question which stated inter-company sale of property from parent to the subsidiary. In this scenario, it is a down-stream transaction that has no impact on the non-controlling interest (NCI). Consequently, they made errors in calculating the NCI's share of profit for the year and post-acquisition retained earnings. Another common mistake came from the elimination of inter-company receivables/payables balances. Either the Candidates computed the wrong amounts, or they omitted this consolidation journal entry.

As for equity accounting for associates, most Candidates have done well. Common errors arose mainly from the recognition of the depreciation expense in respect of the overvalued equipment in the associate. Many Candidates could not compute the effect on the share of profit and beginning retained earnings of the associate correctly.

For **part (b)**, generally, the Candidates were able to identify the % interest, as well as the relevant ending and beginning retained earnings for the purposes of computing the share of post-acquisition retained earnings for both the subsidiary and associate, though not many Candidates scored full marks due to various errors in the consolidation adjustments. However, there were some Candidates who did not attempt this part at all and some of the Candidates did not understand what the question was asking for and hence did not know how to approach the question.

Instead of preparing independent proof of the net profit or loss attributable to parent, some Candidates showed proof of entire comprehensive income (i.e. including Other Comprehensive Income (OCI), which was not required). A few of the Candidates even showed proof of Retained Earnings instead, which was not required by the question.

Candidates should work towards high competency in consolidation, which is a question with significant weightage for the paper. More attention should be given to the understanding of the processes in consolidation and equity accounting.

Question 2

Question 2 Part I required the Candidates to translate the financial statements of a foreign subsidiary in accordance with SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates* and to prove the balance of the translation reserve as at the year end.

Candidates performed well for the translation of foreign currency financial statements. Most of the Candidates could apply the correct exchange rates for the assets and liabilities, as well as reserve at the respective dates.

In addition, majority of the Candidates managed to prove the translation movement for the financial year, and hence were able to prove the balance of the translation reserve as at the financial year end.

Question 2 Part II (a) involved an application of requirements of SFRS(I) 9 *Financial Instruments* and preparation of the journal entries to identify the fair value changes in the hedging instrument and hedged item identified. **Part II (b)** required the Candidates to compare the net profit/loss under the hedging conditions based on the information with that when no hedging contract was in place.

This question part was not well attempted by the Candidates. Only a handful of Candidates prepared the journal entries with most of the accounts/amounts stated correctly. However, the portion of the gain or loss on the hedging instrument should be recognised in profit or loss instead of OCI. A few Candidates recognised the portion of the gain or loss on the hedging instrument in OCI instead of recognising in profit or loss.

Some Candidates erroneously interpreted the portion of the gain on the hedging instrument given in the question as a loss and vice-versa. The aforementioned erroneous interpretation of gain or loss on hedging led to the incorrect recording of related journal entries and errors in the calculation in **part II (b).**

This question involved sale of the coffee and had a reference to the adoption of perpetual inventory system and hence the requirement to present the journal entry to recognise cost of sales upon sale of the coffee. Many Candidates determined the amount of cost of sales incorrectly as they ignored the effect of fair value changes to the hedged item and several Candidates ignored the journal entry for the recognition of cost of sales and inventory corresponding to the sale of coffee.

Several Candidates did not attempt this question, which further highlights the need for the Candidates to manage their time on the day of the examination. Candidates must plan their time accordingly to the requirements of each question.

Question 3

Part (a) and **part (b)** of the question examined the Candidates on the application of both the standards SFRS(I) 1-38 *Intangible Assets* and SFRS(I) 1-36 *Impairment of Assets.* It required Candidates to calculate and identify the total expenditure to be recorded as expenses OR capitalised as intangible assets and to record the relevant transactions for the intangible assets; i.e., to compute amortisation expense and to compute the impairment loss for the intangible assets.

Majority of the Candidates performed well in **Part (a)** and were able to identify the expenses that were eligible for capitalisation as intangible assets correctly. However, some Candidates made errors in capitalising the wastage and losses arising from testing the prototype as intangible assets, which should not be the case.

Part (b) was badly attempted by the Candidates. Most of the mistakes were related to the wrong computation of the amortisation expense and the impairment loss. A number of Candidates did not identify the recoverable amount correctly, which should be the higher of the value-in-use and the fair value less cost to sell.

Therefore, the resultant impairment loss when comparing the adjusted carrying amounts to the recoverable amount was not correctly determined.

Overall, Candidates could have scored better if they read carefully the case facts and addressed the requirements of the question.

Part (c) examined the Candidates on the application of the requirements of Ethics Pronouncement (EP) 100 of the *ISCA Code of Professional Conduct and Ethics*, and had tested the Candidate's analytical ability to comprehend the facts of the case given in this question and in identifying the significant abnormalities associated with the practice of being "generous to the estimate of value-in-use". It required the Candidates to explain if they agree with the action of management, and to identify one fundamental principle which is being threatened and one threat that could be compromised or perceived to be compromised based on the facts of the question.

Most Candidates were able to demonstrate their analytical skills and identified the improper practice in the question.

Majority of the Candidates also performed well by identifying the appropriate fundamental principle which was being threatened and the threat that could be compromised or perceived to be compromised.

However, a few Candidates answered the question by copying the content of the given case. Candidates should provide relevant answers to address the requirements of the question. Copying and pasting of contents of relevant paragraphs from the question will receive little or no marks. Marks can only be awarded for the correct application of the fundamental principles to the facts stated and for correct identification of the threat that could be compromised or perceived to be compromised.

Question 4

This question required Candidates to apply SFRS(I) 2 *Share-based Payment.* **Part (a)** was about the accounting for the share appreciation rights (SARs) over the two years period and **part (b)** was on the accounting for share options instead of SARs.

Compared to prior examinations, Candidates in this exam session have done significantly better for this topic. However, most of the marks lost on these questions related to wrong interpretation of the question given rather than unfamiliarity with the concepts.

Part (a) was a straightforward question on share-based remuneration, specifically on SARs. Most Candidates performed well for this question by providing the correct journal entries even though some amounts were computed wrongly.

Common mistakes included not amortising the remuneration expense over the vesting period and not accounting for the exercised and unexercised SARs correctly.

Candidates should also be reminded that they should display their workings whenever possible especially relating to questions on journal entries and share-based compensation questions. Clear and concise workings to support the answer and the logic backing it up would lead to marks being awarded.

Part (b) was poorly attempted. Unfortunately, most Candidates did not understand the requirements of the question when they attempted the question.

Candidates would need to go through the whole process of **part (a)** and replace it with share options and then note the differences between the accounting of SARs and share options. Most Candidates were able to highlight the differences during the settlement process, but few of the Candidates were able to show the difference in the accounting during the vesting period. Even fewer Candidates were able to comment on the difference in the accounting treatment between cash-settled and equity-settled share-based compensation.