PP

Singapore CA Qualification Examination

8 June 2021

Financial Reporting

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **3 hours and 15 minutes**.

2. This examination paper has **THREE (3)** questions and comprises **TWENTY-FIVE (25)** pages (including this instruction sheet and Appendices A and B) and **TWO (2)** EXCEL spreadsheets (Appendices A and C). 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 watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.

4. 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.

5. This examination paper is the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

6. Assume that all dollar amounts are in Singapore dollar (S$) unless otherwise stated.

7. 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 2021.

IMPORTANT NOTICE:

If you are not feeling well, please do not press "Start Assessment". If you have started and leave during the exam, you would be deemed to have attempted the paper.

e-Exam Question Number	**VERY IMPORTANT NOTICE**
1	

****VERY IMPORTANT NOTICE****

1. Your question paper is attached under the **"Resources"** tab found at the bottom right of **EACH** question.

2. Please download the relevant required Appendices in Question 1 of the e-Exam portal.

Other important information:

3. You will be allowed to access your reference materials but **will not be allowed** to communicate with anyone either physically or through any electronic means.

4. You are **NOT ALLOWED** to access any websites during the exam.

5. You are **NOT ALLOWED** to print the question paper.

6. **Please take note that your screen will be monitored throughout the examination. If you are found to have accessed any websites, or if you cheat or attempt to cheat, you will be liable to severe disciplinary action.**

   Should you encounter any issues during the exam, please call the following numbers:
   +65 6100 0516

7. **You do not need fill in an answer for this question.**

Question 1 – (a), (b), (c) and (d)

P Co acquired a controlling interest of 90% in S Co for US$5,000,000 on 1 July 20x4. The functional currency of P Co is the Singapore dollar (S$) and the functional currency of S Co is the United States dollar (US$). The shareholders' equity of S Co on 1 July 20x4 was as follows:

Shareholders' equity of S Co on 1 July 20x4	**US$**
Share capital	2,000,000
Retained earnings	870,000
Revaluation reserves	100,000
	2,970,000

Fair and book values of identifiable net assets of S Co at date of acquisition were as follows:

	S Co (US$) ----------------------------→	
	Book value	Fair value
Provision for claims	0	(200,000)
Other net assets	2,970,000	2,970,000
Total net assets	2,970,000	2,770,000

Non-controlling interests	10%
Fair value of non-controlling interests at acquisition date	US$500,000

The financial statements of S Co for the current financial year ended 31 December 20x6 in US$ are shown below.

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

		US$
Sales		4,200,000
Cost of sales		
Opening inventory	480,000	
Purchases	2,250,000	
	2,730,000	
Closing inventory	(820,000)	
		(1,910,000)
Gross profit		2,290,000
Operating expenses		(1,650,000)
Management fee charged by P Co		(50,000)
Exchange gain on bank loan		80,000
Profit before tax		670,000
Tax expense		(134,000)
Profit after tax		536,000
Dividends declared		(70,000)
Profit retained		466,000
Retained earnings, 1 January 20x6		1,300,000
Retained earnings, 31 December 20x6		1,766,000

Abridged Statement of Financial Position as at 31 December 20x6

	US$
Fixed assets	4,080,000
Inventory	820,000
Bank loan	(1,000,000)
Other net monetary assets	146,000
Net assets	4,046,000
Share capital	2,000,000
Retained earnings	
Pre-acquisition	870,000
Post-acquisition	896,000
	1,766,000
Revaluation reserve	
Arising as at 31 December 20x3	100,000
Arising as at 20 December 20x6	180,000
	280,000
Shareholders' equity	4,046,000

Additional information relating to P Co and S Co:

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

2. P Co's Group recognises the full fair value of non-controlling interests on the acquisition date.

3. The provision for claims at the acquisition date arose from a due diligence review on claims that were not recognised in S Co's books because of counter-claims. The fair value was reliably measurable at the amount of US$200,000. On 31 December 20x5, the counter-claims by S Co were dismissed by the courts, and S Co was required to pay the plaintiffs US$220,000 in two instalments. The first

instalment of US$190,000 was paid immediately on 31 December 20x5, and the second instalment of US$30,000 was paid on 31 December 20x6.

4. On 6 May 20x6, S Co transferred inventory to P Co at the transfer price of US$100,000. The original cost of the inventory was US$80,000. P Co re-sold 70% of the inventory on 17 June 20x6 to third parties for S$75,000. The remaining 30% was in P Co's warehouse as at 31 December 20x6. All transactions related to the inventory were settled in cash immediately.

5. On 1 July 20x4, P Co borrowed US$5,000,000 on a 20-year tenure to hedge the foreign currency risk of its net investment in S Co. The loan was designated as a hedge of the net investment in S Co and was deemed an effective hedge in accordance with the requirements of SFRS(I) 9 *Financial Instruments*. Exchange gain or loss on the loan was a taxable/(deductible) income/(expense) for P Co.

6. Dividends by S Co were declared on 28 September 20x6 and paid on 15 October 20x6.

7. Sales, purchases, operating expenses, management fee and other items in the income statement, with the exception of the exchange gain on the bank loan, occurred evenly throughout the year. The exchange gain on the bank loan owing by S Co was recognised on 31 December 20x6, which is deemed the transaction date for this gain. Tax expense was recognised on the date of the underlying income item.

8. The exchange rates of S$ to US$1 are shown below.

Date/Period	**S$ to US$1**
31 December 20x3	1.29
1 July 20x4	1.25
31 December 20x4	1.22
Average rate in opening inventory	1.23
31 December 20x5	1.24

Average rate for 20x6	1.28
6 May 20x6	1.23
17 June 20x6	1.26
28 September 20x6	1.29
15 October 20x6	1.33
20 December 20x6	1.32
Average rate in closing inventory	1.31
31 December 20x6	1.34

9. As at 31 December 20x5, the cumulative foreign currency translation reserve accumulated in other comprehensive income and arising from S Co's book value of equity was a debit balance of S$34,000.

e-Exam Question Number	Question 1 required:
2	**(a)** Translate the financial statements of S Co from United States dollars (US$) to Singapore dollars (S$) for the year ended 31 December 20x6 in accordance with the requirements of SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. You may use the template provided in Appendix A. The exchange rates are also reproduced in Appendix A. **(11 marks)**
3	**(b)(i)** For purposes of consolidation, show the journal entries for S Co with respect to the transfer of goods to P Co in Singapore dollars (S$) in 20x6 (excluding tax effects) in accordance with the requirements of SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. **(2 marks)**
4	**(b)(ii)** Show the journal entries for P Co in Singapore dollars (S$) with respect to the transferred inventory and its subsequent re-sale (excluding tax effects) in accordance with the requirements of SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. **(2 marks)**
5	**(b)(iii)** Show the consolidation entries in Singapore dollars (S$) to eliminate the intra-group transactions in **(b)(i)** and **(b)(ii)** and the adjustment for the related tax effects. **(4 marks)**

e-Exam Question Number	
6	**(c)** Prepare the consolidation adjustments with respect to the exchange gain or loss on P Co's hedge of net investment and its related tax entry for the year ended 31 December 20x6 in Singapore dollars (S$) in accordance with SFRS(I) 9 *Financial Instruments* and SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. **(3 marks)**
7	**(d)** Prepare the remaining consolidation adjustments for P Co with respect to S Co for the year ended 31 December 20x6 in accordance with SFRS(I) 3 *Business Combinations*, SFRS(I) 10 *Consolidated Financial Statements* and SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. **(22 marks)** **(Total: 44 marks)**

Question 2 – (a), (b) and (c)

CASE A

Sing-P is a fictitious listed Singapore company. Its principal activities are the processing and sale of frozen fish products to export markets, running a chain of seafood restaurants and a fish farm for leisure fishing in Singapore.

Sing-P's customers are primarily wholesalers in North Asia who distribute the products to supermarkets and retail outlets.

Because of the Covid-19 pandemic, Sing-P has to deal with business disruptions in three different situations below.

Situation A

As an emergency response to food supply disruptions globally, Sing-P's Board of Directors approved a budget to set up an e-commerce platform for its international market to extend beyond North Asia. The estimated cost of setting up the digital platform was S$2,000,000. The cost would be substantially funded by shareholder contributions and government grants. The platform would be developed internally by Sing-P's experienced software engineers, who would also provide training to Sing-P's staff. Given the urgency of the situation, there was no time for detailed planning or market studies to assess the commercial feasibility of extending its reach to new markets from this platform.

e-Exam Question Number	**Question 2 required:**
8	**(a)** Evaluate and explain, in a comprehensive and systematic manner, whether Sing-P is able to capitalise the cost of setting up the digital platform as an asset in accordance with the requirements of SFRS(I) 1-38 *Intangible Assets* and SFRS(I) INT 1-32 *Intangible Assets – Web Site Costs*. State any assumptions that you need to make to support your evaluation. **(7 marks)**

Situation B

Besides launching the e-commerce platform, Sing-P took advantage of the opportunity to overhaul its business model. In the past, it would deliver its products by sea to its North Asian customers. Its customers would pay separately for freight charges for cargo delivery. During the pandemic, transportation by sea was disrupted as a number of shipping lanes were closed. Sing-P offered its customers delivery by overland routes from its main supplier, Supplier Y in Vietnam, direct to the customers. Sing-P set up a small factory and office in Supplier Y's premises to apply its patented manufacturing process to ensure freshness and conduct quality control and freight arrangements.

Sing-P negotiates directly with its customers on pricing and terms and allows its customers to decide on the timing and destination point of delivery. For example, if a particular customer wishes the shipment to be delivered directly to its clients, Sing-P would arrange direct delivery to the end-users. Thus, customers have full decision rights on the goods at the point of shipment. Shipping cost is always included in the agreed price.

Sing-P also offers loyalty points to its customers. For every $100,000 order placed for fish products with standalone fair value of $100,000, a customer receives $1,000 loyalty points which the customer may use to obtain samples of new fish products from Sing-P within three months from the date of receipt of the inventory. In the past, the loyalty points were fully utilised by the expiry date of these points.

As in the past, Sing-P offers to refund its customers for evidence of goods that are spoilt on arrival. Such claims must be made within 30 days from receipt of goods. Historically, the probability of refund is 3% of sales. Sing-P has no recourse to its supplier for the refund. Sing-P recognises revenue on the basis of expected value (probability-weighted revenue).

Evaluate the following invoiced sale made to Customer X through its e-commerce platform:

- Date of order by Customer X: 3 April 20x6
- Date of invoice from Supplier Y to Sing-P: 7 April 20x6
- Amount billed by Supplier Y to Sing-P: $100,000
- Date of shipment from Vietnam factory to Customer X: 10 April 20x6
- Date of invoice from Sing-P to Customer X: 13 April 20x6
- Invoiced amount billed to Customer X by Sing-P: $120,000
- Date of receipt of goods by Customer X: 6 May 20x6
- Freight charges for the shipment paid by Sing-P: $15,000
- Claim of refund by Customer X by 5 June 20x6: Nil
- Loyalty points that Customer X is entitled: $1,000
- Customer X utilised $700 of loyalty points on 15 July 20x6. The remaining points expired on 5 August 20x6.

e-Exam Question Number	**Question 2 required:**
9	**(b)(i)** Applying the principles of SFRS(I) 15 *Revenue from Contracts with Customers* to the facts of the case, identify any TWO observations from the fact pattern to evaluate if Sing-P is acting as agent or principal of Supplier Y. You may use the table in Appendix B to answer the question. In completing the table, the principles from SFRS(I) 15 *Revenue from Contracts with Customers* should be paraphrased and not extracted verbatim. **(4 marks)**
10	**(b)(ii)** Identify the separate performance obligations in the contract between Sing-P and Customer X, in accordance with SFRS(I) 15 *Revenue from Contracts with Customers*. You may use the table in Appendix B to answer the question. **(2 marks)**
	(b)(iii) For each separate performance obligation identified in **(b)(ii)**, indicate the timing of recognition of the revenue. You may use the table in Appendix B to answer the question. **(3 marks)**
11	**(b)(iv)** Allocate the invoiced amount of $120,000 to the separate performance obligations by Sing-P identified in **(b)(ii)** in accordance with SFRS(I) 15 *Revenue from Contracts with Customers*. **(3 marks)**

e-Exam Question Number	
12	**(b)(v)** From the information in the case, prepare journal entries for Sing-P, to record all transactions related to the sale to Customer X for the year ended 31 December 20x6 in accordance with the appropriate accounting standards. Entries to record cash settlement of payable, receivable and freight charges are not required. Indicate the specific dates for each journal entry and show workings clearly. Ignore tax effects. **(11 marks)**

Situation C

On 31 December 20x6, Sing-P's Board of Directors approved a decision to discontinue the operations relating to the leisure fish farm in Singapore. Management is in the process of negotiations with potential buyers, and there is a high probability that the fish farm will be disposed of within a year from the current financial year end, 31 December 20x6. The fish farm operations qualify as a disposal group held for resale as defined in SFRS(I) 5 *Non-Current Assets Held for Sale and Discontinued Operations*.

The financial statements of Sing-P for 31 December 20x6 which shows the breakdown of operations, assets and liabilities of "Exports and Restaurants" and "Fish Farm" are shown below. An EXCEL spreadsheet of the financial statements is available in Appendix C.

Statement of Comprehensive Income for the year ended 31 December 20x6

	Exports and Restaurants	**Fish Farm**	**Total**
Revenue	15,900,000	1,450,000	17,350,000
Cost of sales	(7,650,000)	(1,310,000)	(8,960,000)
Gross profit	8,250,000	140,000	8,390,000
Selling and distribution expenses	(2,530,000)	(56,000)	(2,586,000)
Administrative expenses	(549,000)	(65,000)	(614,000)
Other expenses	(120,000)	(27,900)	(147,900)
Operating profit	5,051,000	(8,900)	5,042,100
Interest expense	(78,900)	(29,000)	(107,900)
Profit before tax	4,972,100	(37,900)	4,934,200
Income tax expense	(994,420)	0	(994,420)
Profit for the period	3,977,680	(37,900)	3,939,780

Statement of Financial Position as at 31 December 20x6

	Exports and Restaurants	**Fish Farm**	**Total**
Property, plant and equipment	5,480,000	560,000	6,040,000
Investments	2,380,000		2,380,000
Non-current Assets	7,860,000	560,000	8,420,000
Biological assets		50,000	50,000
Inventories	2,408,000	190,800	2,598,800
Contract assets	349,000		349,000
Receivables	735,300	3,400	738,700
Prepayments	62,000	12,000	74,000
Cash and cash equivalents	54,000	6,790	60,790
Current Assets	3,608,300	262,990	3,871,290
Total Assets	11,468,300	822,990	12,291,290

Share capital			5,000,000
Retained earnings			1,160,290
Total Equity			6,160,290
Long-term loans	3,800,000	900,000	4,700,000
Provisions	243,000		243,000
Non-current Liabilities	4,043,000	900,000	4,943,000
Payables	650,000	334,000	984,000
Contract liabilities	75,000		75,000
Bank overdraft		129,000	129,000
Current Liabilities	725,000	463,000	1,188,000
Total Liabilities	4,768,000	1,363,000	6,131,000
Total Equity and Liabilities			12,291,290

Additional information:

1. The carrying amount and fair value less cost to sell off assets of the disposal group are shown below. Before the initial classification of the disposal group as held for sale, necessary impairment tests have been carried out. Liabilities of the disposal group are carried at their fair values.

	Carrying amount	**At fair value less cost to sell**
Fish farm assets	822,990	672,190

2. There are no tax effects from any gain or loss on disposal of the fish farm.

3. In accordance with the requirements of SFRS(I) 5 *Non-Current Assets Held for Sale and Discontinued Operations*, Sing-P opts for the “single amount” presentation in the financial statements with disclosure of supporting details or analysis relating to the fish farm in the footnotes.

e-Exam Question Number	Question 2 required:
13	**(c)** Present the Statement of Comprehensive Income and Statement of Financial Position for the year ended 31 December 20x6 for Sing-P in good form in accordance with the requirements of SFRS(I) 5 *Non-Current Assets Held for Sale and Discontinued Operations*. Footnote disclosures are <u>not</u> required. You may use the EXCEL spreadsheet in Appendix C to formulate and present your answers.

(9 marks)

(Total: 39 marks)

Question 3 – (a) and (b)

The following transactions relate to a manufacturer, Co L, during its current financial year ended 31 December 20x6. The functional currency of Co L is the United States dollar (US$). Answers to this question should be presented in US$. Ignore tax effects.

Date	Event	Spot Price per barrel US$	Forward price per barrel for delivery on 30 November 20x6 US$
1 August 20x6	Based on its production needs and preliminary negotiations with an oil supplier, Co L expects to enter a purchase contract with the supplier JX Oil to purchase 10,000 barrels of oil for immediate delivery on 30 November 20x6. To hedge the price risk, Co L entered into a forward contract to buy 10,000 barrels of oil at the contracted price of US$43.21 per barrel. The contract's expiry date is 30 November 20x6. The forward contract qualifies as an effective hedge in accordance with SFRS(I) 9 *Financial Instruments*. The accounting policy of Co L is to separate the forward element and the spot element of the forward contract and to designate only the change in the value of the spot element	40.27	43.21

	as the hedging instrument. Co L accounts for the forward element in the forward contract on the basis of whether the nature of the hedged item is a transaction or time-period related hedged item.	
30 November 20x6	Net settlement of the forward contract in cash with intermediary	50.25
	At the same time, Co L entered into a purchase contract with JX Oil for purchase of 10,000 barrels of oil valued at US$502,500 for immediate delivery but with extended credit terms. Under this special arrangement, Co L will settle the payment on 30 November 20x8 for the agreed amount of US$552,750.	
31 December 20x6	Financial year end of Co L	

e-Exam Question Number	Question 3 required:
14	**(a)** Prepare the journal entries to account for the forward contract and the physical oil contract for the year ended 31 December 20x6, in accordance with the requirements of SFRS(I) 9 *Financial Instruments* and other relevant standards. Ignore tax effects. **(10 marks)**
15	**(b)** Applying the requirements of SFRS(I) 9 *Financial Instruments*, determine the following amounts with respect to the liability owing to JX Oil: **(i)** Effective interest rate per annum implicit in the extended credit terms calculated to four decimal points; **(2 marks)** **(ii)** Using the effective interest rate per annum calculated above in **(b)(i)**, prepare the amortisation table on a per annum basis from 1 December 20x6 to 30 November 20x8; and **(3 marks)** **(iii)** Prepare the journal entry to record the interest expense for the year ended 31 December 20x6. **(2 marks)** **(Total: 17 marks)**

APPENDIX A

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

	US$	Rate	S$
Sales	4,200,000		
Cost of sales			
Opening inventory	480,000		
Purchases	2,250,000		
	2,730,000		
Closing inventory	(820,000)		
	(1,910,000)		
Gross profit	2,290,000		
Operating expenses	(1,650,000)		
Management fee charged by P Co	(50,000)		
Exchange gain on bank loan	80,000		
Profit before tax	670,000		
Tax expense	(134,000)		
Profit after tax	536,000		
Dividends declared	(70,000)		
Profit retained	466,000		
Retained earnings, 1 January 20x6	1,300,000		
Retained earnings, 31 December 20x6	1,766,000		

Abridged Statement of Financial Position as at 31 December 20x6

	US$	Rate	S$
Fixed assets	4,080,000		
Inventory	820,000		
Bank loan	(1,000,000)		
Other net monetary assets	146,000		
Net assets	4,046,000		
Share capital	2,000,000		
Retained earnings			
Pre-acquisition	870,000		
Post-acquisition	896,000		
	1,766,000		
Revaluation reserve			
Arising as at 31 December 20x3	100,000		
Arising as at 20 December 20x6	180,000		
	280,000		
Foreign Currency Translation Reserve			
Shareholders' equity	4,046,000		

Date/Period	**S$ to US$1**
31 December 20x3	1.29
1 July 20x4	1.25
31 December 20x4	1.22
Average rate in opening inventory	1.23
31 December 20x5	1.24
Average rate for 20x6	1.28
6 May 20x6	1.23
17 June 20x6	1.26
28 September 20x6	1.29
15 October 20x6	1.33
20 December 20x6	1.32
Average rate in closing inventory	1.31
31 December 20x6	1.34

APPENDIX B

Question 2 (b)(i)

Principles from SFRS(I) 15	Observations from the fact pattern

Question 2 (b)(ii) and (b)(iii)

You may add or reduce the rows in the table according to your answer.

Question 2 (b)(ii) Separate performance obligation	Question 2 (b)(iii) Timing of revenue recognition

END OF PAPER