PP

Chartered Accountant
SINGAPORE

Singapore CA Qualification Examination

9 June 2022

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 (20)** pages (including this instruction sheet, Appendices A and B) and **TWO (2)** EXCEL spreadsheets (Appendices A and B). 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 2022.

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.

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

SINGAPORE ACCOUNTANCY COMMISSION

e-Exam Question Number	**VERY IMPORTANT NOTICE**
1	1. Your question paper is attached under the **"Resources"** tab found at the bottom right of **EACH** question. 2. You may also download the question paper that allows annotation throughout your exam in Question 1 of the e-Exam portal. 3. Please download the relevant required Appendices in Question 1 of the e-Exam portal. **Other important information:** 4. 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. 5. You are **NOT ALLOWED** to access any websites during the exam. 6. You are **NOT ALLOWED** to print the question paper. 7. **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 number: +65 6100 0516 8. **You do not need fill in an answer for this question.**

Question 1 – (a), (b) and (c)

The current abridged financial statements of P Co and its subsidiaries X Co and Y Co are shown below. P Co has a direct controlling interest in X Co and an indirect controlling interest in Y Co through X Co.

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

	P Co	**X Co**	**Y Co**
Profit before tax	6,500,000	1,560,000	680,000
Tax	(1,300,000)	(312,000)	(136,000)
Profit after tax	5,200,000	1,248,000	544,000
Dividends declared	(300,000)	(180,000)	(60,000)
Profit retained	4,900,000	1,068,000	484,000
Retained earnings, 1 January 20x6	2,180,000	1,350,000	720,000
Retained earnings, 31 December 20x6	7,080,000	2,418,000	1,204,000

Abridged Statement of Financial Position as at 31 December 20x6

	P Co	**X Co**	**Y Co**
Investment in X Co	4,000,000		
Investment in Y Co		920,000	
Intercompany receivable		130,000	
Intercompany payable	(130,000)		
Other net assets	5,210,000	2,668,000	1,804,000
Net assets	9,080,000	3,718,000	1,804,000
Share capital	2,000,000	1,300,000	500,000
Retained earnings	7,080,000	2,418,000	1,204,000
Revaluation reserves			100,000
Equity	9,080,000	3,718,000	1,804,000

Table A below presents the information on the ownership interests held by P Co and X Co and the change in ownership interest following a partial divestment by P Co.

Table A: Information on Ownership Interests

	X Co	Y Co
Acquisitions		
Date of acquisition by P Co	1 January 20x4	
Date of acquisition by X Co		1 October 20x2
Ownership interest acquired by P Co	90%	
Ownership interest acquired by X Co		60%
Divestment		
Date of partial divestment by P Co	31 December 20x5	
Ownership interest divested by P Co	15%	
Ownership interest retained by P Co	75%	

Table B shows the information relating to shareholders' equity and non-controlling interests of X Co and Y Co.

Table B: Information on Shareholders' equity and Non-controlling interests

	X Co	Y Co
Shareholders' equity on 1 January 20x4		
Share capital	1,300,000	500,000
Retained earnings	650,000	530,000
Revaluation reserves		130,000
	1,950,000	***1,160,000***
Fair value of non-controlling interests on 1 January 20x4	400,000	510,000
Shareholders' equity on 1 October 20x2		
Share capital		500,000
Retained earnings		420,000

Revaluation reserves		120,000
		1,040,000
Fair value of non-controlling interests on 1 October 20x2		320,000

Table C shows the fair value and book value information of identifiable net assets.

Table C: Fair value and book value of identifiable net assets

	X Co-------------------------->		**Y Co-------------------------->**	
As at 1 January 20x4	Book value	Fair value	Book value	Fair value
Accounts receivable	120,000	90,000		
Inventory			90,000	130,000
Other net assets	1,830,000	1,830,000	1,070,000	1,070,000
Total net assets	***1,950,000***	***1,920,000***	***1,160,000***	***1,200,000***
			Y Co-------------------------->	
As at 1 October 20x2			Book value	Fair value
Inventory			120,000	135,000
Other net assets			920,000	920,000
Total net assets			***1,040,000***	***1,055,000***

Additional information relating to P Co, X Co and Y Co:

1. Since its acquisition of X Co and Y Co, P Co deems that it has control over these entities.

2. Apply a tax rate of 20% on fair value differentials and other adjustments. Dividend income received and gain or loss on divestment of ownership interests are tax-exempt.

3. P Co measures non-controlling interests at full fair value on acquisition date.

4. The immediate parent measures investments in subsidiaries in its separate financial statements at cost.

Additional information relating to P Co:

1. On 31 December 20x5, P Co sold 15% ownership interest in X Co to non-controlling interests of X Co for $1,350,000.

2. During 20x6, P Co embarked on a research and development project to develop a proprietary process to recycle waste materials for own use. However, towards the end of the project in September 20x6, P Co entered into an agreement with X Co to sell the rights of the process to X Co. On 1 October 20x6, P Co transferred the intellectual property rights on the process to X Co for $2,500,000. The estimated useful life of the intellectual property rights is 10 years from 1 October 20x6, the date when the asset became available for use. During 20x6, P Co recognised the proceeds from sale as "Other Income" and the cost of the project as research and development expenses as follows:

Item	**$**
Other income	2,500,000
Costs of Phase 1 to 5 below were expensed off to "Research and Development"	
Phase 1: Research expenses	(500,000)
Phase 2: Design of process	(120,000)
Phase 3: Testing of process in lab	(200,000)
Phase 4: Inspection by independent body	(20,000)
Phase 5: Trial run in factory	(300,000)
Profit from project recognised by P Co	1,360,000

   If P Co had not sold the intellectual property rights to X Co, it would have capitalised the costs from Phase 5 following the successful inspection by the independent body and the expenditures meeting the conditions of capitalisation of SFRS(I) 1-38 *Intangible Assets*.

Additional information relating to X Co:

1. During 20x5, cash of $110,000 was received from the debtor whose account showed evidence of impairment on 1 January 20x4. No further proceeds were expected thereafter.

Additional information relating to Y Co:

1. Subsequent to acquisition by P Co, the following transactions relate to the under-valued inventory of Y Co on acquisition date:

    - Sold to third parties before 1 January 20x6 80%
    - Written off during stock take on 31 December 20x6 10%
    - Remaining on 31 December 20x6 10%

2. During December 20x5, Y Co sold inventory to P Co for $150,000 when the original cost was $98,000. Subsequently:

    - Re-sale by P Co to third parties:
        - During 20x5 20%
        - During 20x6 70%
    - Remaining on 31 December 20x6 10%

3. On 31 December 20x6, Y Co recognised a decrease in revaluation reserves of $30,000.

e-Exam Question Number	Question 1 required:
	Apply Singapore Financial Reporting Standard (International) (SFRS(I)) 3 *Business Combinations* and SFRS(I) 10 *Consolidated Financial Statements* and prepare consolidation adjustments relating to P Co, X Co and Y Co for the year ended 31 December 20x6, including the effects of the change in ownership interests in the following order:
2	**(a)** Prepare the consolidation adjustment(s) in 20x6 to eliminate the Investment in X Co and the Investment in Y Co as of date of acquisition by P Co. **(8 marks)**
3	**(b)** Prepare the consolidation adjustment(s) in 20x6 relating to the change in ownership interests as of 31 December 20x5. **(6 marks)**
4	**(c)** Prepare the remaining consolidation adjustments in 20x6 relating to P Co, X Co and Y Co in the post-acquisition period to 31 December 20x6. **(29 marks)** **(Total: 43 marks)**

Question 2 – (a), (b), (c), (d) and (e)

Co T, a contractor, specialises in the building of logistical facilities for customers in supply-chain management. Co T applies the principles and requirements of SFRS(I) 15 *Revenue from Contracts with Customers* in accounting for contracts with its customers.

On 15 July 20x5, Co T successfully won a fixed-price contract of $65,000,000 to build a warehouse facility. The expected date of completion of the construction was 30 March 20x8.

On 1 July 20x6, Co T negotiated with its customer for an increase in the contract price by $6,500,000 to cover additional material costs arising from supply-chain disruption caused by Covid-19 restrictions. Based on the negotiations, the most likely outcome as at 31 December 20x6 was customer agreement to 90% of the requested increase in price.

Information relating to costs for 20x5 and 20x6 are shown below:

	20x5	**20x6**
	$	***$***
Current construction costs incurred during the year	11,500,000	15,000,000
Estimated further construction costs to be incurred determined at the end of each year	38,000,000	32,000,000
Progress billings issued during the year	8,900,000	20,000,000
Cash received on progress billings during the year	7,600,000	18,000,000

Co T assesses that it can reasonably measure its progress towards the complete satisfaction of its performance obligation to its customers using costs as an input measure.

Assume that Co T's construction income is taxed on a completed contracts basis (i.e. on completion of the satisfaction of the performance obligation). Tax rates are as follows:

	20x5	**20x6**
Tax rate	20%	18%

e-Exam Question Number	**Question 2 required:**
5	**(a)** Co T incurred items of expenditures during 20x6 as shown on Appendix A. For each item, state YES if the item relates directly to the contract for purposes of calculating the measure of progress under SFRS(I) 15 *Revenue from Contracts with Customers* and if not, state the specific accounting classification for that item. If the item is an expense that is not related to the contract, state “Non-contract expense”. You may type in your answers using the template shown in Appendix A. **(5 marks)**
6	**(b)** From the information in the question, answer the following in accordance with the requirements of SFRS(I) 15 *Revenue from Contracts with Customers*: **(i)** Compute the percentage of completion for the construction project (to six decimal points) as at 31 December 20x5 and 31 December 20x6. **(4 marks)** **(ii)** Compute the current revenue and current contract expense for 20x5 and 20x6. **(5 marks)**
7	**(c)** From the information in the question and your computations above, prepare the journal entries to record the transactions for Co T for the year ended 31 December 20x6 (entries for 20x5 are not required). Ignore tax effects at this point. You may assume that current construction costs are paid in cash. **(4 marks)**

e-Exam Question Number	Question 2 required:
8	**(d)** Calculate the taxable (deductible) temporary differences and the deferred tax liability (asset) arising from the construction project as at 31 December 20x5 and 31 December 20x6. Journal entries are not required. **(4 marks)**
9	**(e)** During 20x7, one of the sub-contractors, Co Z was providing sub-optimal work due to labour shortage. The problem did not arise in 20x6 and was not known until after the issue of the audited accounts for year ended 31 December 20x6. During December 20x7, Co T's management decided to terminate the contract with Co Z in 20x8 as the reputation and rectification costs would be significant. The proposed contract between Co T and Co Z included the following terms: • If Co Z had been allowed to fulfil the contract, the remaining costs of fulfilling the contract (i.e. payment to Co Z) would be \$2.5 million. • If Co Z is terminated as a sub-contractor, the penalties imposed on Co T is \$2 million. Assuming that Co T had not yet terminated the existing contract, advise Co T with explanations or justifications on the accounting treatment for the sub-contractor contract as at 31 December 20x7 in accordance with SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*. Journal entries are not required. **(4 marks)** **(Total: 26 marks)**

Question 3 – Case A and Case B

Case A

The supply chain disruption arising during the pandemic has caused commodity prices to surge, resulting in adverse financial results for many Asian manufacturers. Co M, a Singapore-based manufacturer of steel cabinets decided to hedge steel prices in its probable forecast purchase of steel by entering a futures contract to buy steel. The functional currency of Co M is the Singapore dollar (S$) while the currency of the futures contract and steel purchases is the United States dollar (US$).

Details of the futures contract are shown below:

Date of inception of futures contract	1 December 20x6
Maturity of futures contract	1 March 20x7
Financial year-end	31 December 20x6
Contracted quantity of steel in futures contract	10,000 metric tons
Initial margin deposit	10% of contractual price x contracted quantity
Daily settlements	For simplicity, assume none
Expected settlement mode	Settled net in cash
Predetermined contractual price (per metric ton)	US$1,600

Details of the probable forecast purchase transaction in the spot market are shown below:

Forecast date of steel purchase	1 March 20x7
Forecast quantity of steel purchased	10,000 metric tons
Expected settlement mode	Immediate in cash

The timeline for Co M is shown below:

Date	Event
1 December 20x6	Due to production requirements, Co M forecasted purchase of steel of 10,000 tons
	To hedge the forecasted purchase of steel, Co M contracted to buy a three-month futures contract for 10,000 tons of steel at US$1,600 per metric ton; 10% margin deposit was paid
31 December 20x6	Financial year end
1 March 20x7	Net settlement of futures contract
	Purchase, delivery and settlement of steel in the spot market

The spot and futures prices of steel and the US$:S$ exchange rates are shown below:

Date	Spot price per metric ton of steel	Futures price per metric ton for contracts maturing 1 March 20x7	Foreign exchange rate
	US$	**US$**	**S$ to US$1**
1 December 20x6	1,520	1,600	1.34
Average rate for December 20x6			1.345
31 December 20x6	1,560	1,640	1.35
Average rate for January and February 20x7			1.36
1 March 20x7	1,630	1,630	1.37

The futures contract met the hedge effectiveness criteria of Co M's risk management policies established in accordance with SFRS(I) 9 *Financial Instruments*. Co M applied hedge accounting under the provisions of SFRS(I) 9. Co M's policy is to recognise the fair value of the futures contract in its entirety and not to separate the time and intrinsic value of the contract. The risk component in which the futures contract is designated as a hedging instrument is the price risk in steel prices in US$. The foreign currency risk between US$ and S$ in the forecasted purchase is unhedged.

Co M applies mark to market accounting daily and changes in fair value are deemed to occur throughout the period. For simplicity, assume the daily changes in fair value are evenly spread out throughout the period and the aggregated totals are recorded at 31 December 20x6 and 1 March 20x7. Ignore daily changes in fair value to and daily settlement of the margin deposit.

e-Exam Question Number	**Question 3 Case A required:**
10	**(a)** Prepare the journal entries on 1 December 20x6, 31 December 20x6 and 1 March 20x7 to record the transactions and effects relating to the futures contract and the steel purchase in Singapore dollars (S$) in accordance with the requirements of SFRS(I) 9 *Financial Instruments* and SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. State clearly if the accounts are profit/loss or other comprehensive income. Foreign exchange gains and losses on the cash balances are not required. Ignore tax effects. **(15 marks)**

Case B

On 1 January 20x1, Co L purchased a five-year Singapore-dollar denominated bond with principal amount of $7,000,000 issued by Co B for a purchase price of $6,680,000. The bond pays interest on 31 December each year at the coupon rate of 6% per annum. The effective interest rate on the bond is 7.118468%. The bond matures on 31 December 20x5. The bond was well-rated by credit agencies and showed little risk of defaulting in 20x1. The timeline with respect to credit risk is shown below:

Date	**Credit risk evaluation**	**Present value of expected cash flows of the bonds**
31 December 20x1	12-month expected credit loss was $12,000	$7,750,000
31 December 20x2	Significant deterioration in credit risk was observed although there was no credit event	$5,167,794

e-Exam Question Number	Question 3 Case B required:
11	**(a)** Prepare the bond amortisation table for the bond investment held by Co L for the years ended 31 December 20x1 and 31 December 20x2 to show at least the following items: • Cash interest amounts • Effective interest amounts • Gross carrying amounts (before loss allowances) • Loss Allowances • Amortised cost balances (net of loss allowances) **(5 marks)**
12	**(b)** Show the financial effects on the Statement of Profit or Loss and Other Comprehensive Income of Co L for the years ended 31 December 20x1 and 31 December 20x2 under each of the following accounting classification of the bond investment in accordance with SFRS(I) 9 *Financial Instruments*. (i) Amortised cost basis (ii) Fair value through other comprehensive income (FVOCI) (iii) Fair value through profit or loss (FVTPL) For fair value through profit or loss classification, Co L's accounting policy is to recognise interest on a cash basis. If the financial effect(s) is affecting other comprehensive income, it should be stated clearly. Ignore taxes. You may use the template shown on Appendix B. **(11 marks)** **(Total: 31 marks)**

APPENDIX A

Items	**For each item, state YES if the item relates directly to the contract for purposes of calculating the measure of progress under SFRS(I) 15 *Revenue from Contracts with Customers* and if not, state the specific accounting classification for that item. If the item is an expense that is not related to the contract, state "Non-contract expense".**
Architectural fees relating to construction project	
Cost of demolition of site in preparation for construction	
Cement stocks purchased before construction	
Lease expenses relating to construction equipment used in the construction	
Sub-contractor costs paid in advance	
Depreciation of equipment used in the construction	
Salaries and wages of foremen and construction workers	
Salaries and wages of administrative and accounting staff deployed on construction related activity	
Liquidated damages for delay in construction due to Covid-19 restrictions	
Search costs to replace insolvent sub-contractors	

APPENDIX B

You may add or delete rows according to the length of your answers.

Statement of Profit or Loss and Other Comprehensive Income (Extracts)			
	(a) Amortised Cost	**(b) FVOCI**	**(c) FVTPL**
31 December 20x1			
	(a) Amortised Cost	**(b) FVOCI**	**(c) FVTPL**
31 December 20x2			

END OF PAPER