FP

Chartered Accountant SINGAPORE

Singapore CA Qualification (Foundation) Examination

7 June 2021

Principles of 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 **SIXTEEN (16)** pages (including this instruction sheet and Appendix A). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is a restricted open book examination. You are allowed to have only the following materials with you at your exam location:
   - One A4-sized double-sided cheat sheet
   - One A4-sized double-sided blank scratch paper
4. 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.
5. 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.
6. This examination paper and all video recordings of this exam are the property of the Singapore Accountancy Commission.

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

SINGAPORE ACCOUNTANCY COMMISSION

MODULE-SPECIFIC INSTRUCTIONS:

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

8. 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.

9. Present all Journal Entries in the following format:

Transaction date	
DR Account Name	xxx
CR Account Name	xxx
(Narration or journal title)	

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

1

VERY IMPORTANT NOTICE

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

Other important information:

2. You will **only be allowed** to access the Excel function from your computer.

3. You are **NOT ALLOWED** to access any websites or reference materials (except for your A4 sized double sided cheat sheet) during the exam.

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

5. **Please take note that your screen will be monitored throughout the examination**. **If you are found to have accessed unauthorised materials or 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

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

Question 1 – (a), (b) and (c)

The unadjusted trial balance of Bedok Pte Ltd (Bedok) as at 30 June 20x0 is shown below:

	Dr	Cr
	$'000	**$'000**
Sales		3,240
Cost of sales	2,085	
Selling and distributions expenses	387	
Administrative and other expenses	413	
Dividend received		11
Share capital		2,250
Revaluation reserve		300
Retaining earnings		244
Interim dividends paid	100	
Freehold land	1,800	
Plant and machinery (cost)	900	
Furniture and fittings (cost)	310	
Plant and machinery (accumulated depreciation)		270
Furniture and fittings (accumulated depreciation)		180
Inventories as at 30 June 20x0	734	
Bank balances	387	
Cash in hand	34	
Trade receivables	533	
Trade payables		281
Deferred tax liabilities		87
Borrowings		820
	7,683	**7,683**

The following information relating to the financial year ended 30 June 20x0 are detailed as follows:

(1) Freehold land is accounted for using the revaluation model. It was acquired several years ago for $1.5 million and was revalued to $1.8 million in 20w8 (20w8 is earlier than 20x0). As of 30 June 20x0, fair value of freehold land is $1.6 million.

(2) Bedok's policy is to depreciate its non-current assets using the straight-line method at annual rates on cost as follows:

a) Plant and machinery ^ = 10%
b) Furniture and fittings ^ = 20%

^ 80% shall be allocated to cost of sales, and the remainder to administrative and other expenses. Freehold land is not depreciated.

(3) Included in selling and distribution expenses are marketing costs of $8,000 paid in advance. The marketing campaign is expected to take place sometime in November 20x0.

(4) $130,000 of unsold inventories on 30 June 20x0 is obsolete. The estimated selling price of these inventories is $62,000 and the estimated costs necessary to make the sale is $4,000. Any write-down should be recognised as cost of sales.

(5) On 1 January 20x0, Bedok borrowed $820,000 from a local bank, which charges an interest of 8% per year. Interest is payable in arrears at the end of each year (i.e. 31 December), and the principal is payable six years later.

(6) Income tax liability determined by tax authority for FY 20x0 is estimated to be $24,000, which has not been provided for, and deferred tax liabilities should be adjusted downwards to $83,000.

(7) Proceeds amounting $280,000 received on 7 March 20x0 in connection with the allotment and issuance of Bedok's ordinary shares has been recorded in the books.

e-Exam Question Number	Question 1 required:
2	**(a)** Prepare the Statement of Profit or Loss and Other Comprehensive Income for Bedok Pte Ltd for the financial year ended 30 June 20x0 in accordance with SFRS(I) 1-1 *Presentation of Financial Statements* and all relevant accounting standards. Show all necessary workings. **(11 marks)**
3	**(b)** Prepare the Statement of Financial Position for Bedok Pte Ltd as at 30 June 20x0 in accordance with SFRS(I) 1-1 *Presentation of Financial Statements* and all relevant accounting standards. Show all necessary workings. **(13 marks)**
4	**(c)** Prepare the Statement of Changes in Equity for Bedok Pte Ltd for the financial year ended 30 June 20x0 in accordance with SFRS(I) 1-1 *Presentation of Financial Statements*. Show all necessary workings. **(5 marks)** **(Total: 29 marks)**

Question 2 – (a), (b) and (c)

Each issue below should be dealt with separately.

Issue 1

On 2 December 20x8, one of AMK Pte Ltd's (AMK) vans was involved in an accident with a motor car. Based on investigations carried out in January 20x9, it was determined that AMK's van driver was responsible for the accident. As such, AMK agreed to pay for the repair to the motor car, which was estimated to be $7,200.

In March 20x9, AMK puts in a claim to be settled by the insurance company, except for a $500 excess on the insurance policy which AMK would have to pay i.e. not claimable against the insurance company. The insurance company may dispute the claim and not pay out. AMK believes that the chance of the insurance company not paying is remote. The financial year-end of AMK is 31 December.

Ignore the effects of income tax and GST arising from these transactions and events.

Issue 2

Simei Pte Ltd (Simei, with a financial year-end of 31 December) purchased 15,000 Bishan shares (which are traded on Singapore Exchange) for $8.30 per share on 5 August 20x1. The transaction costs incurred amounted to $250. Subsequent to the said purchase, the market price of Bishan shares fluctuated as follows:

Date	Price per share
17 December 20x1	$9.00
31 December 20x1	$9.50
20 June 20x2	$7.90
31 December 20x2	$8.80

Dividends of $0.65 per share was declared and approved on 17 December 20x1, and was received by Simei on 3 January 20x2. On 20 June 20x2, Simei sold 5,000 Bishan shares and transaction costs of $100 were incurred.

Ignore the effects of income tax and GST arising from these transactions and events. Fair value adjustments are only made at the end of each financial year.

Issue 3

Clementi Pte Ltd (Clementi) is a newly incorporated company. It commenced business in January 20x5 and purchased plant and equipment for $180,000. This non-current asset has an expected useful life of five years with zero residual value and will be depreciated on a straight-line basis. Tax allowance for the plant and equipment is claimed equally over three years. Corporate tax rate is 17%, and Clementi's profit before tax and depreciation for FY 20x5 is $350,000.

Assume there are no expenses other than depreciation. There are no other differences between accounting income and taxable income items.

e-Exam Question Number	Question 2 required:
5	**(a)** For Issue 1: Explain how this issue should be treated in AMK's financial statements for the year ended 31 December 20x8 in accordance with SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*. **(6 marks)**
6	**(b)** For Issue 2: Record the journal entries for the financial years ended 31 December 20x1 and 20x2 in accordance with SFRS(I) 9 *Financial Instruments* assuming Simei does NOT elect to present fair value changes in 'other comprehensive income'. Show all necessary workings. **(11 marks)**
7	**(c)** For Issue 3: Prepare extracts of Clementi's income statement (starting with profit before tax and depreciation) and balance sheet (excluding cash) for the financial year ended 31 December 20x5 in accordance with SFRS(I) 1-12 *Income Taxes* and SFRS(I) 1-16 *Property, Plant and Equipment*. Show all necessary workings. **(6 marks)** **(Total: 23 marks)**

Question 3 – (a), (b) and (c)

Changi Pte Ltd (Changi, a GST-registered company with financial year end 31 December) with functional currency dollars ($) sold a new car with 'free' 5,000 km and 10,000 km maintenance for a combined price of $80,000 on 27 October 20x3.

Typically, Changi sells 5,000 km and 10,000 km maintenance for $1,000 and $1,500 respectively. New cars are always sold with 'free' maintenance.

Changi purchased a car on credit from the manufacturer (a GST-registered entity) on 9 November 20x3 for EUR 37,000. Changi sold the same car to a customer on 15 November 20x3 and settled the payment in full immediately. She carried out 5,000 km maintenance on her car on 20 December 20x3, and Changi incurred a cost of $300.

Changi made payment to the car manufacturer on 8 January 20x4. The 10,000 km maintenance was carried out on 15 February 20x4, and a cost of $500 was incurred.

Exchange rates during the relevant period are as follows:

Date	SGD / EUR
9 November 20x3	1.62
31 December 20x3	1.58
8 January 20x4	1.55
31 March 20x4	1.60

All values stated above are exclusive of 7% GST (*Goods and Services Tax*). GST returns are filed at the end of each calendar quarter, and any input/output tax is settled immediately. Foreign currency monetary balances are revalued at the end of each calendar quarter. Ignore the effects of income tax arising from these transactions and events.

e-Exam Question Number	Question 3 required:
8	**(a)** Record the journal entries from 1 October 20x3 to 31 March 20x4 in accordance with SFRS(I) 15 *Revenue from Contracts with Customers* and SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. Show all necessary workings. Round your answers to the nearest dollar. **(17 marks)**
9	**(b)** Assuming the new car was sold with a three-year warranty. Explain qualitatively how Changi should account for this in relation to SFRS(I) 15 *Revenue from Contracts with Customers*. **(4 marks)**
10	**(c)** *'Confidentiality means that an accountant in business has loyalty to the business which employs him or her. No such information should be disclosed to any party outside of the organisation.'* Discuss, in a balanced manner, the accuracy of this statement. **(4 marks)** **(Total: 25 marks)**

Question 4 – (a), (b), (c) and (d)

Certain items of machinery owned by Geylang Pte Ltd (Geylang) appeared to have suffered a permanent diminution in value for the financial year ended 30 September 20x4. The carrying amount of these assets is $165,000.

Similar items of machinery are sold in the market for $130,000, and the commission payable to the broker is 3% of sales proceeds. Geylang will also need to incur dismantling costs of $2,500 and make its machine operator redundant and pay retrenchment benefits amounting $3,000.

The anticipated pre-tax cash flows from the machinery are $50,000 per year for the next three years. Interest expense relating to the machinery is $1,000 over the same period. A pre-tax market discount rate of 9% is considered appropriate.

Geylang decided to venture into trading of household products, and Product STU was purchased during September 20x4:

Date	Quantity (Units)	Price per unit of Product STU
1 September	50	$100
6 September	80	$110
15 September	30	$105
22 September	60	$120

Units of Product STU sold during the same month were recorded as follows:

Date	Quantity (Units)
9 September	40
14 September	60
25 September	50

On 15 September 20x4, Geylang entered into a non-cancellable agreement to rent a warehouse for three years at a rate of $15,000 per month to store Product STU. This agreement conveys to Geylang the right to control the use of the said warehouse for three years.

e-Exam Question Number	Question 4 required:
11	**(a)** Identify any TWO potential indicators of impairment for the items of machinery under SFRS(I) 1-36 *Impairment of Assets*. **(4 marks)**
12	**(b)** Calculate the impairment loss to be recognised relating to the items of machinery for the financial year ended 30 September 20x4 in accordance with SFRS(I) 1-36 *Impairment of Assets*. Show all necessary workings. **(6 marks)**
13	**(c)** Calculate the costs of sales and closing inventory relating to Product STU for the financial year ended 30 September 20x4 using the First-In-First-Out (FIFO) perpetual method in accordance with SFRS(I) 1-2 *Inventories*. Show all necessary workings. **(8 marks)**
14	**(d)** The Conceptual Framework for Financial Reporting sets out the definitions of an asset and a liability. Explain why the rental of the warehouse qualifies as an asset and a liability as of 15 September 20x4. **(5 marks)** **(Total: 23 marks)**

END OF PAPER

Appendix A - Common verbs used by the Examiners

Verb	Description
Calculate / Compute	Do the number crunching and derive the correct answer. Make sure that you write down your workings and crosscheck your numbers.
Discuss	**Discuss** requires you to provide the for and against arguments, you cannot have a discussion without opposing views otherwise it would be just a conversation. If **discuss** is placed near the front of the instruction, then it requires you to provide an answer that is similar to **explain**, but addresses both the for and against arguments. For instance, "**Discuss** why numerical valuation is essential when buying or selling a small business".
Explain	**Explain** requires you to write at least several sentences conveying how you have **analysed** the information in a way that a layperson can easily understand the concept or grasp the technical issue at hand.
Identify	**Identify** is similar to **list**, but requires you to also provide an **explanation** as to why the item/s that you have **identified** is/are relevant to the facts given in the question.
In accordance with	This instruction requires you to relate your answer back to a specific document. Failure to make specific mention of the document in your answer will result in a loss of marks.
Prepare / Present	**Prepare** (or **present)** requires you to produce your answer using a specific format. For instance, "**Present** an extract of the notes to the accounts for…" or "**Prepare** all the relevant journal entries for …". Remember, a journal is only complete if it shows the date of the entry, the correct accounts, the correct amounts, and has a description (narration) – easy marks are often thrown away through carelessness.
Record	**Record** is similar to **prepare** in that you may need to perform a calculation and show the specific components in an appropriate format.

Appendix B - Future Value and Present Value Tables

Present value interest factor of $1 per period at i% for n periods (T), PVIF(i,n).										
T	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424

Future value interest factor of $1 per period at i% for n periods (T), FVIF(i,n).										
T	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	1.010	1.020	1.030	1.040	1.050	1.060	1.070	1.080	1.090	1.100
2	1.020	1.040	1.061	1.082	1.103	1.124	1.145	1.166	1.188	1.210
3	1.030	1.061	1.093	1.125	1.158	1.191	1.225	1.260	1.295	1.331
4	1.041	1.082	1.126	1.170	1.216	1.262	1.311	1.360	1.412	1.464
5	1.051	1.104	1.159	1.217	1.276	1.338	1.403	1.469	1.539	1.611
6	1.062	1.126	1.194	1.265	1.340	1.419	1.501	1.587	1.677	1.772
7	1.072	1.149	1.230	1.316	1.407	1.504	1.606	1.714	1.828	1.949
8	1.083	1.172	1.267	1.369	1.477	1.594	1.718	1.851	1.993	2.144
9	1.094	1.195	1.305	1.423	1.551	1.689	1.838	1.999	2.172	2.358

Present value interest factor of an (ordinary) annuity of $1 per period (T) at i% for n periods (T), PVIFA(i,n).										
T	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759

Future value interest factor of an ordinary annuity of $1 per period (T) at i% for n periods (T), FVIFA(i,n).										
T	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
2	2.010	2.020	2.030	2.040	2.050	2.060	2.070	2.080	2.090	2.100
3	3.030	3.060	3.091	3.122	3.153	3.184	3.215	3.246	3.278	3.310
4	4.060	4.122	4.184	4.246	4.310	4.375	4.440	4.506	4.573	4.641
5	5.101	5.204	5.309	5.416	5.526	5.637	5.751	5.867	5.985	6.105
6	6.152	6.308	6.468	6.633	6.802	6.975	7.153	7.336	7.523	7.716
7	7.214	7.434	7.662	7.898	8.142	8.394	8.654	8.923	9.200	9.487
8	8.286	8.583	8.892	9.214	9.549	9.897	10.260	10.637	11.028	11.436
9	9.369	9.755	10.159	10.583	11.027	11.491	11.978	12.488	13.021	13.579