



Singapore CA Qualification (Foundation) Examination

8 June 2021

Advanced 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 **TWENTY ONE (21)** 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.

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.

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.

****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 following are the summarised financial statements of the Hikma's group of companies:

	Hikma	Shire	Advanz
	<i>\$'m</i>	<i>\$'m</i>	<i>\$'m</i>
Sales	52,204	23,913	20,076
Cost of sales	(27,785)	(15,987)	(13,386)
Gross profit	24,419	7,926	6,690
Other income	3,086	1,474	494
Operating expenses	(17,010)	(2,940)	(2,843)
Interest expenses	(524)	(239)	(623)
Profit before tax	9,971	6,221	3,718
Tax expense	(1,540)	(760)	(698)
Profit after tax	8,431	5,461	3,020
Other comprehensive income	-	(580)	560
Total comprehensive income	8,431	4,881	3,580

Statement of Financial Position

As at 31 December 20x7

	Hikma \$'m	Shire \$'m	Advanz \$'m
Non-current Assets			
Property, plant and equipment	53,414	20,346	21,625
Long-term equity investments	-	5,304	4,215
Investment in Shire Pte Ltd (at cost)	23,879	-	-
Investment in Advanz Pte Ltd (at cost)	6,590	-	-
	83,883	25,650	25,840
Current Assets			
Inventories	10,245	1,583	750
Trade and other receivables	8,394	2,606	1,490
Cash and cash equivalents	15,182	8,714	4,450
	33,821	12,903	6,690
Total Assets	117,704	38,553	32,530
Equity			
Share capital	39,347	14,700	12,135
Fair value reserves	-	540	325
Retained earnings	46,338	14,942	12,065
	85,685	30,182	24,525
Current Liabilities			
Trade and other payables	29,624	7,499	7,085
Provision for tax	2,395	872	920
	32,019	8,371	8,005
Total Equity and Liabilities	117,704	38,553	32,530

Statement of Changes in Equity (extract)
For the financial year ended 31 December 20x7

	Hikma		Shire		Advanz	
	Fair value reserves	Retained earnings	Fair value reserves	Retained earnings	Fair value reserves	Retained earnings
	\$'m	\$'m	\$'m	\$'m	\$'m	\$'m
Balance as at 1 January 20x7	-	40,861	1,120	11,161	(235)	9,795
Total comprehensive income	-	8,431	(580)	5,461	560	3,020
Dividend paid	-	(2,954)	-	(1,680)	-	(750)
Balance as at 31 December 20x7	-	46,338	540	14,942	325	12,065

Additional information:

1. The Group, consisting of Hikma and Shire, adopts the proportionate share of the fair value of the subsidiaries' identifiable net assets in measuring any non-controlling interest.
2. Ignore all income tax and deferred tax effects, if any, arising from business combinations.
3. There has been no change in the share capital of all the above companies since the respective acquisition dates.
4. Other income consists of dividend income, interest income and other miscellaneous income.
5. The fair value reserves relate to the revaluation of long-term equity investments held by companies in the Group.
6. When Hikma acquired 75% of Shire's shareholding on 1 January 20x5:
 - Shire's net assets were represented by share capital of \$14,700m, fair value reserves of \$2,640m and retained earnings of \$6,784m.
 - Off-balance sheet intangible asset of \$2,128m, which had a remaining useful life of 8 years was recognised for Shire.
 - Shire's inventory was undervalued by \$460m, and all of this inventory was sold to external customers in the following financial year.
7. Since 20x5, Shire had sold goods to Hikma at a gross profit margin of 25%. Based on Hikma's accounting records, \$3,125m of these inventories remained unsold as at 31 December 20x6. These inventories were subsequently sold to external customers in 20x7.
8. With effect from 1 January 20x7, Shire negotiated for a higher price with Hikma to garner a higher gross profit margin of 30% for the intragroup sales. The sales

from Shire to Hikma for the financial year amounted to \$6,500m, and 40% of this inventory remained with Hikma. The entire amount outstanding due to intragroup sales for the year was settled as at 31 December 20x7.

9. On 1 February 20x7, Hikma advanced a short-term loan of \$2,700m to Shire at 4% per annum. The loan amount and interest owing remained unpaid as at 31 December 20x7. These outstanding amounts were recorded in trade and other receivable of Hikma and trade and other payable accounts of Shire. The interest for the relevant period was recorded in the other income account and the interest expense account of Hikma and Shire respectively.
10. When Hikma purchased 40% of the shareholding in Advanz on 1 January 20x6, Advanz's net assets were represented by share capital of \$12,135m, fair value reserves \$1,175m, retained earnings of \$7,065m and overvaluation of the manufacturing plant of \$3,900m. The remaining useful life of this manufacturing plant as at 1 January 20x6 was 15 years.
11. Assume that a shareholding of more than 50% gives rise to control, while a shareholding between 20% and 50% gives rise to significant influence.
12. The Group adopts the straight-line method to amortise its intangible assets and records amortisation as an operating expense.

e-Exam
Question
Number

Question 1 required:

Apply SFRS(I) 3 *Business Combinations*, SFRS(I) 10 *Consolidated Financial Statements* and SFRS(I) 1-28 *Investments in Associates and Joint Ventures* when answering **(a)** and **(b)**:

- 2 **(a)** Prepare the relevant consolidation and equity accounting entries for Hikma Pte Ltd Group for the financial year ended 31 December 20x7. Show the consolidation and equity accounting entries for the current financial year separately from those relating to the prior years.

Present your answers in the following format:

Transaction date	
DR Account Name	xxx
CR Account Name	xxx
(Narration for Journal Entry)	

(27 marks)

- 3 **(b)** In relation to the Consolidated Statement of Financial Position as at 31 December 20x7, provide independent proof for the total retained earnings of the group.

(6 marks)

**e-Exam
Question
Number**

Question 1 required:

On 1 April 20x8, Holmes Pte Ltd (Holmes) acquired 100% of the shareholding in Sherlock Pte Ltd (Sherlock) in exchange for the following:

- Issue of 2.5m ordinary shares by Holmes, and the fair value of each share on that date was \$4.40;
- Immediate payment of cash of \$3m on 1 April 20x8 and another \$3m as at 1 April 20x9, which would be funded solely by borrowings;
- Transfer of an industrial property with net book value of \$12.8m to Sherlock. The fair value of this property was assessed to be \$14.5m as at 1 April 20x8; and
- Additional payment of \$10m on 31 March 20x9 if the profit of Sherlock exceeds \$25m for the financial year ended 31 December 20x8. The probability of Sherlock achieving this level of profit was estimated to be 70%.

The borrowing rate and cost of capital of Holmes were 6% and 12% per annum respectively.

4

- (c)** Compute the fair value of consideration transferred from Holmes to Sherlock for the above acquisition. Round your answers to the nearest dollar.

(5 marks)

(Total: 38 marks)

Question 2 – (a) and (b)

On 1 July 20x0, Rotary Ltd (Rotary), which has a 30 June financial year end, granted Share Appreciation Rights (SARs) to its Board of Directors and Senior Managers:

	Number of recipients of SARs	Number of SARs granted per recipient
Board of Directors (BOD)	10	20,000
Senior Managers (SM)	25	12,000

The holders of the SARs are entitled to a future cash payment based on the increase in the Rotary's share price from a specified level over a specified period of time.

The SARs would vest conditional upon the employee working for Rotary until 30 June 20x3, and they would be forfeited if the employee leaves the company prior to the service period of 3 years. All the vested SARs could be exercised any time after vesting date and prior to expiry on 30 June 20x5.

The fair values of the SARs were estimated as follows on the respective dates:

As at	Fair value per SAR (\$)
30 June 20x1	\$11.40
30 June 20x2	\$13.65
30 June 20x3	\$16.50

For the financial year ended 30 June 20x1, it was **estimated** that a total of one Director and two SMs would leave Rotary by 30 June 20x3.

For the financial year ended 30 June 20x2, it was **estimated** that a total of two Directors and six SMs would leave Rotary by 30 June 20x3.

For the financial year ended 30 June 20x3, one Director and five SMs actually left Rotary.

On 30 June 20x4, when the intrinsic value and the fair value of each SAR were \$15 and \$18 respectively, all the Directors exercised their SARs.

The SMs exercised their SARs when the intrinsic value of each SAR was \$20.50 on 31 December 20x4.

**e-Exam
Question
Number**

Question 2 required:

5 **(a)** Prepare the journal entries for the financial years ended 30 June 20x1 to 30 June 20x5. Show all workings. Ignore the tax effect, if any. **(16 marks)**

6 **(b)** On 1 July 20x3, the Remuneration Committee had wanted to retire the current SAR plan for the Board of Directors and introduced a new share-based plan, where the Directors could each elect to either:

- (i) receive 25,000 share options at an exercise price of \$10, or
- (ii) be paid with cash equivalent to the value of 15,000 shares at the market price on the date of payment, if they remained with Rotary on the vesting date on 30 June 20x5.

Based on the available information above, explain how this new share-based compensation would be accounted before vesting date for the financial year ended 30 June 20x4 and 30 June 20x5.

(6 marks)

(Total: 22 marks)

Question 3 – (a) and (b)

Two years ago, Creative Dining acquired Oishii Pizzaeria (Oishii), which serves award-winning delicacy. Oishii, headquartered in Singapore, operates both restaurants and food delivery businesses in Country X and Country Y. The restaurants target families with children, as the restaurant premises include indoor playgrounds for children below 12 years and offer birthday celebration event services. On the other hand, the food delivery business targets office workers and those who work from home. Based on the nature of their operations and the following information collected for 30 June 20x0, Management had identified four cash-generating units (CGUs) of Oishii:

\$'000	Country X		Country Y	
	Restaurant	Food delivery	Restaurant	Food delivery
Goodwill	2,000	650	1,500	390
Carrying amount of furniture and fittings	2,170	-	1,920	-
Carrying amount of delivery vans	-	580	-	550
Carrying amount of kitchen premise	860		680	
Annual sales	1,970	840	2,390	540
Recoverable amount	2,500	1,540	2,990	1,150

The kitchen at the restaurant premise in each country prepares food for both the restaurant customers as well as food delivery customers. The annual sales of the restaurants and food delivery business are a reasonable indication of the proportion of the kitchen operations devoted to each business in the country. The Singapore office handles all the marketing and administrative operations of businesses in both countries, and its carrying amount of \$2.4m cannot be allocated on a reasonable and consistent basis to the individual CGUs.

For the past two years, the sales of Oishii was on an upward trend, and its profit margin had been impressive compared to the rest of the players in the industry. Since the

recent outbreak of the global pandemic in March 20x0, the governments in both Country X and Country Y banned dining in restaurant premises. The recoverable amount of Oishii as at 30 June 20x0 was estimated to be \$9.5m.

**e-Exam
Question
Number**

Question 3 required:

Apply SFRS (I) 1-36 *Impairment of Assets* when answering the following:

- 7** **(a)** Discuss TWO impacts of the pandemic outbreak on the impairment assessment for the financial year ended 30 June 20x0. **(4 marks)**
- 8** **(b)** Perform an impairment test for Oishii, calculating and stating the allocation of any impairment loss and total impairment loss recognised for the financial year ended 30 June 20x0. Show all workings. Round your answers to the nearest thousand dollar. **(16 marks)**
- (Total: 20 marks)**

Question 4 – (a), (b), (c) and (d)

Aero Lines Ltd (Aero Lines) had an inventory of 280,000 barrels of crude oil at the cost of \$52 per barrel. To hedge the volatility in the fair value of its inventory, Aero Lines entered into a futures contract on 1 April 20x0 to sell the crude oil on 31 May 20x0. Aero Lines had applied fair value hedge accounting and had designated the change in fair value of the futures contract (based on futures prices) as a hedge of the change in the fair value of the inventory of crude oil (based on spot prices). On 31 May 20x0, the futures contract was duly settled. On the same day, the 280,000 barrels of crude oil were sold for cash at the spot price on that date. The following shows the price movements of crude oil per barrel:

Date	Spot price per barrel (\$)	Futures price per barrel (\$) for settlement on 31 May 20x0
1 April 20x0	53.00	54.80
30 April 20x0	51.10	51.80
31 May 20x0	52.50	52.50

Ignore **(i)** the margin deposit on futures contract, **(ii)** time value of money, as it is not expected to be significant, and **(iii)** tax effects, if any, arising from the above transactions. Assume that Aero Lines adopts a perpetual inventory system and Singapore Financial Reporting Standard (International) (SFRS(I)) 9 *Financial Instruments* for financial reporting purposes and that all criteria for hedge accounting under SFRS(I) 9 are met.

**e-Exam
Question
Number**

9

Question 4 required:

- (a) Prepare the journal entries for Aero Lines to record the events and transactions as at 30 April 20x0 and 31 May 20x0 in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 9 *Financial Instruments*. Indicate clearly in your answer if the fair value changes in the hedging instrument and hedged item are to be recognised as a profit, a loss, or an other comprehensive income item.

(12 marks)

Due to the outbreak of the global pandemic during the financial year ended 31 December 20x0, Aero Lines' flight service operations had been recording steep losses. This had also led to several management executives, including those from the financial reporting department, retrenched from their roles.

In early January 20x1, the Accountant was closing the accounts for the previous year and was in discussion with the Finance Manager. The Accountant, a long-time employee of Aero Lines, is a member of Institute of Singapore Chartered Accountants. He was proposing to reverse the impairment of some of the investments in the consumer technology, pharmaceutical and e-commerce industries because their fair values based on financial reporting requirements were assessed to be higher than their carrying amounts.

However, the new Finance Manager rebutted, "This is the best chance for us to clean up the accounts and build our cookie jar. Instead of writing back the impairment for 20x0, we should write down more, so that we can do the write-back in 20x1, and record a much higher bottom line. In this way, our share price would soar and Management would be very pleased with our performance!"

While the Accountant tried to explain that such treatment is not in line with the Singapore Financial Reporting Standards, the Finance Manager replied to conclude the discussion, "If you don't agree with this proposal, then you will need to think of another way to achieve the same outcome as what I proposed! Else, I don't see how your role adds any value to the organisation at all."

**e-Exam
Question
Number**

Question 4 required:

With reference to Ethics Pronouncement (EP) 100, the *ISCA Code of Professional Conduct and Ethics*:

- 10** **(b)** Identify ONE fundamental principle which is being threatened from the perspective of the Accountant.

(2 marks)

- 11** **(c)** Describe ONE threat that could compromise, or be perceived to compromise, the Accountant's compliance with the fundamental principles identified in **(b)** above.

(2 marks)

- 12** **(d)** The Accountant felt uneasy about the discussion with the Finance Manager. Recommend TWO appropriate actions that the Accountant could take to eliminate or reduce the threat to the fundamental principle identified in **(c)** above.

(4 marks)

(Total: 20 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. Candidates often underperform because of careless mistakes.
Describe	Describe requires you to provide the characteristics and features of an item or situation without going into step-by-step detail of how to perform that procedure.
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 ...”.
Propose/ Provide	Put forward (for example, a point of view, idea, argument, alternatives, etc.) for consideration or action. For instance, “Based on the facts of the case, propose the most tax-effective entity type ...”, or “ Propose audit adjusting entries to correct ...”.

Verb	Description
Recommend	Make a statement about the most appropriate course of action. If there is more than one possible course of action, state which action you would choose and why (justify your choice). Your professional judgment and your ability to interpret the wider situation are critical to scoring well in these types of questions. Don't forget to think about the future and the past, not just the present when making a recommendation .
State	State is similar to list , but the items require your professional judgement. For instance, " State any restrictions that apply". One of the easiest ways to make sure that you state comprehensively is to think, " list and justify ". You will note that state appears in many of the verb descriptions given.
With reference to	This instruction requires you to relate your answer back to a specific document/s or set of facts. Failure to make specific mention of the document/s or facts in your answer will result in a substantial loss of marks.