

Singapore CA Qualification (Foundation) Examination

9 December 2024

Accounting for Decision Making

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 **THIRTEEN (13)** 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 ISCA's regulations. Please note that smartwatches, 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 Accounting and Corporate Regulatory Authority.

MODULE-SPECIFIC INSTRUCTIONS:

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

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****

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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 6028 9811

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

Question 1 – (a) and (b)

Tea Obsession Limited (TOL) makes high-quality tea sets from the finest pottery and silver. Its distinctive design is increasingly fashionable thanks to many successful product placement campaigns in the media.

Originally a family-run company, for the first time in its history, the company has employed a commercially renowned Chief Executive Officer (CEO), who has pledged to ‘take the company to the next level’. He has conducted a strategic and operational review and has put a plan together to boost growth.

For the year ended 31 December 2023, the company’s Statement of Financial Performance and Position were as follows:

Statement of Financial Performance: Statement of Financial Position:

	\$'000		\$'000	\$'000
Revenue	30,500	Non-current assets		40,250
Costs of sale	<u>(12,200)</u>	Inventory	7,625	
Gross profit	18,300	Trade Receivables	5,083.3	
Expenses	<u>(5,241)</u>	Cash	2,150	
Profit before taxation	13,059	Trade Payables	<u>(2,033.3)</u>	
Taxation at 17%	<u>(2,220)</u>	Net working capital		<u>12,825</u>
Profit after tax	<u>10,839</u>			<u>53,075</u>
		Share Capital	10,000	
Dividends declared	4,335.6	Reserves	<u>36,519.4</u>	
(to be paid in 2024)		Total equity		46,519.4
		Dividend payable		4,335.6
		Tax payable		<u>2,220</u>
				<u>53,075</u>

The new CEO plans to secure funding to increase production capacity, launch a new range of tea ware and improve working capital management. The head of finance recommends that the financial budget be based on the 2023 actuals with the following adjustments:

- Sales price increase of 10%, sales volume increase of 10%.

- Gross profit margin percentage to improve and increase by 5 percentage points over the previous year.
- Expenses (excluding depreciation) to reduce by \$1,241,000.
- Depreciation on opening non-current assets for 2024 is to be \$3 million (as was the case in 2023). \$20 million will be spent on new non-current assets at the start of 2024, to be depreciated down to an estimated scrap value of \$5 million straight line over 6 years. You may assume accounting depreciation is allowable for tax purposes.
- The new non-current assets will be financed entirely by a loan repayable in 6 years' time. Interest will be charged at a rate of 5% per year on the loan principal, payable on 1 January in arrears.
- Inventory days $[(\text{closing inventory balance}/\text{cost of sales}) \times 365]$ will decrease by 100 days compared to 2023.
- Trade receivables days $[(\text{closing receivables balance}/\text{sales}) \times 365]$ will decrease by 30 days compared to 2023.
- Trade payable days $[(\text{closing payables balance}/\text{cost of sales}) \times 365]$ to stay the same as for 2023.
- The dividend pay-out percentage (dividends declared/profit after tax) will remain the same as for 2023.
- Assume 365 days in a year.

**e-Exam
Question
Number**

Question 1 required:

2

- (a)** Prepare the financial budget for the Statement of Financial Performance for the year and dividends declared for the year ending 31 December 2024.

(11 marks)

3

- (b)** Prepare the financial budget for the Statement of Financial Position as at 31 December 2024. **Note:** Consider that 'cash' may be calculated as a balancing figure in your calculations.

(14 marks)

(Total: 25 marks)

Question 2 – (a), (b) and (c)

Sunday Best Plates (SBP) manufactures high-quality sets of China plates. It is a traditional family-owned business which prides itself on its team of skilled craftspeople who make the plates using a traditional potter's wheel, and hand paint them when they have been fired in the kiln.

They establish a standard benchmark of 200 plates per worker per day. They employ 10 craftspeople who each work a 10-hour standard day and are budgeted to be paid \$20 per hour. The latest operating statement for last month – Period 4 (20 working days budgeted and actual) – shows 45,000 plates were produced.

Fixed manufacturing overheads for Period 4 amounted to an actual cost of \$25,000. Fixed manufacturing overheads are absorbed on a per labour basis at a rate of \$10 per labour hour. Since Period 3, management has been considering moving their internal reporting away from the current absorption costing approach to variable costing, so they are treating fixed production overheads solely as period costs. The management team focuses solely on monthly and annual profits to appraise organisational performance.

**e-Exam
Question
Number**

Question 2 required:

- 4**
- (a)** Calculate the following fixed overhead variances, indicating whether each variance is favourable or unfavourable, expressed in dollars (\$):
- (i)** Spending **(5 marks)**
- (ii)** Production Volume **(6 marks)**
- 5**
- (b)** Explain **THREE** effects that moving away from the current absorption (full) costing system to variable costing are likely to have on the reported performance in Period 4 and/or on behaviour in the future. **(6 marks)**
- 6**
- (c)** Explain **FOUR** characteristics of an effective performance measure in this case. **(8 marks)**
- (Total: 25 marks)**

Question 3 – (a), (b) and (c)

Never Sweet Enough (NSE) manufactures confectionery in a competitive and crowded marketplace. It has three divisions – Fudge, Chocolate and Toffee. They sell to supermarkets and caterers and are branded similarly to be presented as a coherent range.

Summary of performance for the year ended:

\$'000	Fudge	Chocolate	Toffee
Sales	6,000	13,000	16,000
Ingredients costs	(3,000)	(5,000)	(6,000)
Labour costs	(1,000)	(1,500)	(1,500)
Fixed costs*	<u>(4,000)</u>	<u>(5,000)</u>	<u>(6,000)</u>
Profit / (Loss)	<u>(2,000)</u>	<u>1,500</u>	<u>2,500</u>

** These include an element of apportioned fixed overheads from the head office, split between the divisions based on 200% of divisional labour cost. Other fixed overheads are division-specific.*

The Board is considering closing the Fudge division as it has been making losses for several years.

**e-Exam
Question
Number**

Question 3 required:

7

- (a)** Calculate and comment on the financial impact on group profits of closing the Fudge division.

(7 marks)

8

- (b)** Recommend and justify with **THREE** reasons whether the Fudge division should be closed at this stage.

(8 marks)

To research the possibility of closing the Fudge division further, the Marketing Director has conducted market research amongst customers and eventual consumers, asking them to rate how much 'satisfaction' or pleasure they get from consuming NSE's fudge compared to competitors (A, B and C) products. The results are shown below:

Producer	NSE	Competitor A	Competitor B	Competitor C
Satisfaction rating from customer per unit	10	15	5	10
Price per unit	\$10	\$12	\$4	\$9

**e-Exam
Question
Number**

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Question 3 required:

- (c)** Explain why the Fudge division may be underperforming using Porter's generic competitive strategies. Include supporting calculations.

(10 marks)

(Total: 25 marks)

Question 4 – (a), (b) and (c)

Peckin' Proud Coops (PPC) manufactures luxury chicken coops targeting homeowners who keep a small number of chickens as pets. PPC is in the process of establishing standard cost per unit as a basis for budgeting and planning for the year ahead.

The following information for the first two years of operations is detailed below:

	Notes	Year 1	Year 2
Output		5,000 units	8,000 units
Labour costs	1	\$200,000	\$250,000
Variable and Fixed Production Overheads costs	2	\$450,000	\$705,000
Materials costs		<u>\$375,000</u>	<u>\$600,000</u>
Total costs		<u>\$1,025,000</u>	<u>\$1,555,000</u>

Notes:

1. Labour can produce up to 6,000 units in normal working hours each year. Anything above 6,000 units is produced in overtime and the worker earns additional pay.
2. Due to the requirement for an additional supervisor, the fixed element of production overheads costs increase by \$75,000 at 7,000 units of output.

The plan for Year 3 is to sell 10,000 units for \$220 each.

PPC's investors require a mark-up on total cost of 25% to be achieved.

The Directors are acutely aware that there is dynamic, extensive and unpredictable global competition in their market, and material costs are volatile, but they intend to maintain their high-quality approach. They are considering offering customers the ability to tailor their coops to their own specifications but are unsure of the impact this will have on their business model.

**e-Exam
Question
Number**

Question 4 required:

- 10** **(a)** Calculate the total standard variable and fixed cost per unit for Year 3, using the high-low method where appropriate.
(12 marks)
- 11** **(b)(i)** Using your answers in **part (a)**, determine the target cost per unit, forecast cost per unit and cost gap; and
(3 marks)
- (b)(ii)** Recommend **TWO** ways of closing the cost gap as **per part (b)(i)**.
(4 marks)
- 12** **(c)(i)** Explain **TWO** reasons why standard costs are developed by businesses; and
(2 marks)
- (c)(ii)** Explain **TWO** issues associated with using standard costs for budgeting and control in a modern environment such as in this case.
(4 marks)
- (Total: 25 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.
Comment	Comment is similar to evaluate in that you are required to make a judgment or provide your opinion based on the facts at hand. Professional judgment and scepticism (a questioning mind) are called for when commenting .
Determine	Ascertain or conclude after analysis and evaluation the most appropriate course of action or most correct answer from a range of viable alternatives.
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.
Justify	Whenever you see the word justify you <u>must</u> provide reasons for your answer, in other words, provide support for your argument or conclusion. If you fail to justify your answer, you will lose valuable marks. Justify is similar to defend .
Prepare	Prepare requires you to produce your answer using a specific format. For instance, “ Prepare the Statement of Cash Flows for ...” or “ Prepare all the relevant journal entries for ...”.
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 .
Use/Using	This instruction tells you the type of model that you must use when formulating your answer. For instance, “ Using the <u>Discounted Cash Flow approach</u> , ...” tells you what valuation approach to use. Another common phrase is “ Using the facts of the case, ...”, which tells you that you must relate your answer to the specific facts given in the question scenario. Generic answers will not pass.