Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Financial Reporting (FR)

EXAMINATION DATE: 18 June 2026

Section 1

General comments

The paper tested Candidates on their understanding and application of Singapore Financial Reporting Standards (International) (SFRS(I)).

In **Question 1**, Candidates were required to demonstrate their understanding and application of SFRS(I), mainly SFRS(I) 3 *Business Combinations*, SFRS(I) 10 *Consolidated Financial Statements* and SFRS(I) 1-28 *Investments in Associates and Joint Ventures*. Most Candidates displayed a good understanding of the preparation of basic consolidation journal entries. However, Candidates did not perform as well in **Part (d), Part (e), Part (f)** and **Part (g)**, as compared to **Part (a), Part (b) and Part (c)**.

In **Question 2**, Candidates were required to apply several SFRS(I)s, mainly SFRS(I) 9 *Financial Instruments*, SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates* and SFRS(I) 16 *Leases*. Overall performance was fair to good, with stronger Candidates presenting clear, structured workings and journal narrations. Common weaknesses included poor time management, incomplete answers, lack of workings and narrations, and incorrect treatment of foreign exchange differences, interest, intangible asset amortisation, FVOCI losses, lease liabilities, restoration costs, depreciation and variable lease payments.

In **Question 3**, Candidates were required to demonstrate their understanding of basic and diluted earnings per share, including the treatment of bonus issues and convertible preference shares. Most Candidates understood the requirements and presented logical, well-structured answers. However, many incorrectly time-weighted the bonus shares instead of adjusting them retrospectively from the beginning of the earliest period presented. Candidates also faced difficulties calculating the weighted average number of shares and making the appropriate profit and share adjustments for diluted EPS. Only a small number correctly identified that the assumed conversion of the preference shares was anti-dilutive and that diluted EPS should therefore equal basic EPS.

Section 2

Analysis of individual questions

Question 1

In this question, Candidates were required to demonstrate their understanding and application of SFRS(I), mainly SFRS(I) 3 *Business Combinations,* SFRS(I) 10 *Consolidated Financial Statements,* and SFRS(I) 1-28 *Investments in Associates and Joint Ventures.*

Part (a) required Candidates to determine the fair value of consideration transferred by P Co to obtain control of S Co.

Most Candidates were generally able to correctly identify cash paid and fair value of land transferred, as part of the consideration. However, some Candidates either did not calculate the expected value of the contingent consideration or did not use the present value of the contingent consideration. There were also some Candidates who wrongly included the due diligence costs paid to consultants as part of the consideration.

Part (b) required Candidates to prepare the journal entry for settlement of the contingent consideration.

Most Candidates were able to correctly record for the cash paid. However, only some Candidates were able to correctly record the loss on settlement and contingent consideration payable. Some Candidates either wrongly used the present value amount of the contingent consideration payable or record the loss on settlement in wrong accounts such as investment in subsidiary.

Part (c) required Candidates to prepare consolidation journal entries relating to a company's (P Co's) interest, in its subsidiary, S Co.

Most Candidates were able to correctly furnish the consolidation journal entries pertaining to the elimination of investment in S Co, allocation of post-acquisition retained earnings to non-controlling interests (NCI), elimination of dividends declared by S Co and elimination of intercompany balances, except for the common errors identified below.

Common errors included the following:

- The adjustment for loss on upstream transfer of inventory – many Candidates were unable to calculate the correct amount to be adjusted for the following accounts:
  - cost of sales – due to goods re-sold to third parties in the current year
  - inventory – due to unsold goods at the end of the year
- The adjustment for unrealised profit in downstream transfer – most Candidates were able to correctly eliminate contract revenue and contract expense. However, some Candidates were unable to correctly adjust the contract asset and/or building in progress.
- The allocation of share of current year income to NCI – while most Candidates were able to furnish the correct consolidation adjustment, many were unable to work out the correct amount. They either did not adjust or adjusted the wrong amount, for after-tax realised loss.
- Some Candidates omitted the following consolidation adjustments:
  - Adjustment for fair value of FVTPL equity securities
  - Adjustment for unrealised profit in downstream transfer

Overall, for this question part, Candidates are reminded to understand the common consolidation adjustments required, including but not limited to, intra-group sale of assets, past and current adjustments related to undervalued fixed assets.

Part (d) required Candidates to perform an analytical check (proof of balance) of NCI of S Co.

While some Candidates demonstrated that they understood and correctly applied the concept of performing an analytical check (proof of balance) of NCI of S Co, other Candidates need to have a better understanding of how to perform an analytical check of NCI, especially the adjustment for after-tax unrealised loss in inventory.

Some Candidates correctly included goodwill in the analytical check of NCI, but the amounts were wrong.

The analytical check is a way of determining the consolidated balances of key figures independently of the process of passing elimination and adjusting entries. It serves as a method of analytically validating key consolidated numbers. Candidates are encouraged to understand the logic behind the analytical check of NCI.

Part (e) required Candidates to prepare equity accounting entries for associate A Co.

Most Candidates were able to furnish the correct equity accounting entry pertaining to the reclassification of dividend income as a reduction of investment. However, for the entry pertaining to the recognition of P Co's share of current year profit after tax of A Co, even though many Candidates were able to provide the correct entry, only a minority of Candidates were able to derive the correct amount for the entry, after adjusting for after-tax profit on sale of fixed assets, after-tax depreciation of fixed assets and after-tax impairment of intangible assets. Moreover, most Candidates omitted the entry to recognise the remeasurement gain on investment in A Co. There were also a few Candidates who provided consolidation journal entries for subsidiary rather than equity accounting entries for associate.

Part (f) required Candidates to perform an analytical check (proof of balance) of the balance of investment in associate A Co.

While some Candidates demonstrated that they understood and correctly applied the concept of performing an analytical check (proof of balance) of the balance of investment in associate A Co, other Candidates need to have a better understanding of how to perform an analytical check, especially the after-tax unrealised profit on fixed assets and after-tax unamortised balance of intangible assets. While most Candidates were able to state the correct book value of shareholders' equity of A Co, many Candidates were unable to derive the correct implicit goodwill in A Co.

The analytical check is a way of determining the balance of investment in associate independently of the process of passing equity accounting entries. It serves as a method of analytically validating this key figure. Candidates are encouraged to understand the logic behind the analytical check of the balance of investment in associate.

Part (g) required Candidates to evaluate qualitatively if P Co has properly accounted for the effects of the loss of control of A Co in the consolidated income statement.

Most Candidates were unable to identify or unable to explain with sufficient clarity, the two errors of principle in P Co's treatment:

- P Co had incorrectly used the same profit on sale figure as reported in its separate financial statements. The profit on sale on the consolidated income statement should be calculated by deducting from the sales proceeds the pro-rated carrying amount of investment in the subsidiary, at the date when control is lost.
- P Co had missed recognising a remeasurement gain on the retained investment as required by SFRS(I) 10 *Consolidated Financial Statements.*

Question 2

Overall, majority of the Candidates performed fairly for this question. For Candidates that scored well, they were able to provide a structured, step-by-step workings that showed their understandings of the questions. Candidates that scored well provided clear workings and steps, which are useful for markers. Clear and concise narrations are also critical.

Common Errors and Areas for Improvement:

- No narration for journal entries which resulted in loss of marks
- No workings provided to support the answers
- Did not attempt the question due to time management issues

FR examination are often integrated questions requiring the application of several SFRS(I)s to the facts of the case. Candidates must exhibit more than just basic knowledge of the SFRS(I)s and also demonstrate competencies in analysing the facts presented and applying the appropriate standards to complex transactions.

Case A

Case A tested Candidates' understanding of *SFRS(I) 9 Financial Instruments* and *SFRS(I) 1-21 The Effects of Changes in Foreign Exchange Rates.* In particular, the Candidates are required to prepare the journal entries to recognise and translate the various transactions for convertible bonds, intangible assets and purchase of investment measured at fair value through other comprehensive income (FVOCI) during the relevant period.

Most Candidates were able to answer a significant portion of this question. Common errors included the following:

Most Candidates were able to work out the journal entries for the issue of convertible bonds, purchase of intangible asset and FVOCI investment. However, many Candidates ignore or forget to account for the difference in foreign exchange in respect of the bonds. As the convertible bonds are monetary items, they need to be revalued using the exchange rate at each reporting date. Consequently, when accounting for the change in the value of the debt instrument, there is a need to attribute part of this change in the value to gain or loss arising from foreign exchange rate fluctuations.

Some Candidates erroneously calculated full year interest expense on the convertible bonds when the debt instrument was only issued for half year.

Many Candidates wrongly used the average exchange rate to translate the convertible bonds from US$ to S$, instead of applying the year-end exchange rate.

Most of the Candidates made the error by calculating the amortisation of the intangible asset by translating the US$ amount using the average exchange rate. As intangible asset is a non-monetary item, the amortisation expense should be computed using the translated S$ cost amount.

For the FVOCI investment, some Candidates debit the fair value loss in the investment to fair value reserve instead of OCI.

As noted in past examinations, some Candidates still did not provide narrations to their journals leading to marks being deducted unnecessarily. Also, there are Candidates that did not show workings clearly. By not showing workings, the Candidates lost the opportunity to be given marks for correct workings.

Case B

This question required the Candidates to calculate the lease liability in accordance with SFRS(I) 16 *Leases* and prepare the lease amortisation table in **Part (a).** Candidates are also required to prepare the journal entries to record the transactions for the relevant financial years in accordance with SFRS(I) 16 *Leases* in **Part (b)**.

Part (a) was generally well attempted by the Candidates. Most Candidates were able to calculate the lease liability (which included the present value of the fixed lease payments) correctly and construct the lease amortisation table for this part. However, some Candidates erroneously included the variable one-time payment and the residual value at the end of the lease term in the lease liability. The variable lese payment is excluded in lease payment as it is not linked to index or rate and the residual value is neither a lease payment nor a benefit to the lessee. Candidates were advised to read the questions carefully to avoid losing marks unnecessarily.

Generally, the answers provided by Candidates for **Part (b)** were average, with some Candidates performing very well and others performing below average. Several Candidates left part of the questions either blank or incomplete.

Common errors included the following:

- The amount of Right-of-Use (ROU) asset should include the amount from the lease liability and the present value of the restoration costs at the end of the lease term. Many Candidates omitted this part when recording the journal at the commencement of the lease term, and hence both the lease liability and the ROU assets are of the same amount. Consequently, the amount of depreciation on the ROU assets in the subsequent financial years were computed wrongly.
- While the interest expense on the lease liability was quite well done, most of the Candidates omitted to recognise the interest expense on the provision for asset restoration.
- Depreciation should be based on the extended lease term but some Candidates calculated depreciation based on the useful life of the ROU asset.
- Many Candidates failed to account for the payment of the variable lease expense.
- Interest expense should be calculated based on the initial lease liability less the first lease payment which was made at the beginning of the year. Some Candidates did not deduct the initial payment when computing the interest expense.

Question 3

Candidates generally understood the requirements of the question. The question was relatively straightforward and primarily tested Candidates' understanding of the underlying concepts rather than requiring complex application. Most Candidates were able to identify the relevant accounting principles and apply them appropriately to the scenario.

Answers were generally well structured. Although many Candidates made errors in calculating the weighted average number of ordinary shares following the bonus issue, they nevertheless adopted a logical approach and demonstrated a sound understanding of the overall requirements of the question.

The most common error related to the treatment of the bonus issue. Many Candidates incorrectly time-weighted the bonus shares from the date of issue, rather than adjusting the weighted average number of shares retrospectively from the beginning of the financial year. Candidates should be aware that bonus issues are treated as if they had occurred at the start of the earliest period presented.

Many Candidates also experienced difficulties in calculating the denominator for both basic and diluted EPS. For basic EPS, Candidates often failed to correctly determine the weighted average number of ordinary shares after taking into account the bonus issue and the conversion of preference shares. Some Candidates also did not clearly present their workings, particularly the calculation of basic EPS as profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year.

For diluted EPS, Candidates commonly struggled with the treatment of convertible preference shares. Many did not correctly adjust profit attributable to ordinary shareholders on the assumption that the preference shares had been converted. Others failed to appropriately include the additional ordinary shares arising from the assumed conversion when determining the diluted weighted average number of shares.

Chartered Accountant SINGAPORE

Candidates are encouraged to adopt the incremental approach when calculating diluted EPS, building from the basic EPS computation. This approach improves the clarity of their workings and makes it easier to assess whether the assumed conversion is dilutive or anti-dilutive.

Only a small number of Candidates correctly concluded that the assumed conversion of the preference shares was anti-dilutive and, accordingly, that the diluted EPS should be restricted to the basic EPS figure.