PP

Chartered Accountant
SINGAPORE

Singapore CA Qualification Examination

5 December 2024

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 **NINETEEN (19)** pages (including this instruction sheet). 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 ISCA's regulations. Please note that smartwatches, 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 and all video recordings of this exam are the property of the Accounting and Corporate Regulatory Authority.

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 2024.

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 **"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.

Other important information:

3. 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.

4. You are **NOT ALLOWED** to access any websites during the exam.

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

6. **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 6028 9811

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

Question 1 – (a), (b), (c), (d) and (e)

The current abridged financial statements of P Co, S Co and A Co are shown below. P Co has control over S Co and significant influence over A Co.

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

	P Co	**S Co**	**A Co**
Profit before tax	1,250,000	900,000	1,020,000
Tax	(250,000)	(180,000)	(204,000)
Profit after tax	1,000,000	720,000	816,000
Dividends declared	(150,000)	(100,000)	(170,000)
Retained profit	850,000	620,000	646,000
Retained earnings, 1 January 20x6	1,590,000	1,050,000	1,240,000
Retained earnings, 31 December 20x6	2,440,000	1,670,000	1,886,000

Abridged Statement of Financial Position as at 31 December 20x6

	P Co	**S Co**	**A Co**
Amount due from S Co	900,000		
Amount due to P Co		(900,000)	(200,000)
Amount due from A Co	200,000		
Other net assets	4,340,000	3,490,000	3,286,000
Net assets	***5,440,000***	***2,590,000***	***3,086,000***
Share capital	3,000,000	800,000	1,200,000
Retained earnings	2,440,000	1,670,000	1,886,000
Revaluation reserves		120,000	
Shareholders' equity	***5,440,000***	***2,590,000***	***3,086,000***

Table A shows the information relating to the investment in S Co and A Co.

Table A: Information relating to the investment in S Co and A Co

	S Co	A Co
Date of investment by P Co	1 January 20x3	1 January 20x4
Percentage acquired by P Co	90%	30%
Shareholders' equity at date of investment:		
Share capital	800,000	1,200,000
Retained earnings	520,000	890,000
Revaluation reserves	60,000	
Shareholders' equity	***1,380,000***	***2,090,000***
Fair value of non-controlling interests on 1 January 20x3	200,000	

Table B shows the fair value and book value of identifiable net assets of S Co and A Co as at the date of investment by P Co.

Table B: Fair value and book value of identifiable net assets of S Co and A Co as at date of investment by P Co

	S Co------------------------→		**A Co------------------------→**	
	Book value	Fair value	Book value	Fair value
Intangible asset	0	300,000		
Provision for litigation loss				(200,000)
Other net assets	1,380,000	1,380,000	2,090,000	2,090,000
Total net assets	***1,380,000***	***1,680,000***	***2,090,000***	***1,890,000***

Additional information relating to P Co, S Co, and A Co:

1. Unless otherwise stated, apply a tax rate of 20% on fair value differentials and other adjustments. Dividend income received is tax-exempt.

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

3. P Co measures investments in S Co and A Co at cost in its separate financial statements.

Additional information relating to P Co:

1. During 20x5, P Co agreed to design and build robotic equipment for S Co at a contract price of $4,000,000. The contract work was completed on 1 July 20x6. The robotic equipment had an estimated useful life of 20 years. P Co recorded the following revenue and expenses and made the following progress billings to S Co in 20x5 and 20x6. S Co recognised an asset in its books during 20x5 and 20x6 based on the progress billings.

	20x5	**20x6**
Contract revenue for the year	2,400,000	1,600,000
Contract expense for the year	1,976,000	1,550,000
Progress billings issued during each year	2,500,000	1,500,000

Additional information relating to S Co:

1. On the date of acquisition of S Co, P Co made the following transfers and expected transfer to the former owners of S Co to acquire the 90% ownership interest in S Co:

Transfers or Expected transfer	***Amount***
Cash payment	$600,000
Contingent consideration payable on 1 January 20x5 if S Co is successful in securing a patent on its research and development project	$500,000
• Present value on 1 January 20x3 of the contingent payment payable.	$453,515
• Probability of success in securing the patent by S Co, assessed as of 1 January 20x3. Assume that the probability remains constant until settlement date.	60%
• On 1 January 20x5, S Co was successful in securing the patent and a full settlement of $500,000 was made by P Co to the former owners of S Co.	
Land transferred as consideration in kind	
• Fair value	$1,200,000
• Book value	$950,000

2. The intangible asset of S Co on 1 January 20x3 is approximately the fair value of the research and development project for which a patent is expected as indicated in (1) above. The patent was successfully obtained on 1 January 20x5 and had an estimated useful life of 10 years from that date. On 31 December 20x6, the patent was sold to third parties for $900,000.

3. During 20x5, S Co sold inventory to P Co for $900,000 when the original cost was $560,000. After the transfer, the following occurred:

• % re-sold to third parties during 20x5	30%
• % re-sold to third parties during 20x6	60%
• % unsold as at 31 December 20x6	10%

4. The balance of revaluation reserves of S Co as at 31 December 20x5 was $145,000.

Additional information relating to A Co:

1. Investment in A Co, carried at cost is $1,000,000.

2. The following events arose with respect to the provision for litigation losses:

• Actual expensing of claims by A Co in 20x5	100,000
• Actual expensing of claims by A Co in 20x6	120,000
• Further expensing of claims by A Co of $50,000 was expected after 20x6	

3. During 20x5, A Co sold inventory to P Co at a loss. Details of the transfer are as follows:

• Transfer price	75,000
• Net realisable value on the date of transfer	80,000
• Original cost and carrying amount	100,000
• % re-sold to third parties during 20x5	25%
• % re-sold to third parties during 20x6	30%
• % unsold as at 31 December 20x6	45%

e-Exam Question Number	**Question 1 required:**	
2	**(a)(i)**	Prepare the journal entry or entries in P Co's books to record the fair value of consideration transferred to acquire S Co on 1 January 20x3. Your answer should include any pre-requisite entry/entries immediately preceding the transfer of fair value of consideration. **(3 marks)**
3	**(a)(ii)**	Prepare the journal entry in P Co's books to record the transaction relating to the contingent consideration payable on 1 January 20x5. Interest-related entries are not required. **(2 marks)**
4	**(b)**	Prepare the consolidation journal entries in respect of P Co and its subsidiary S Co for the year ended 31 December 20x6. Show workings clearly. **(32 marks)**
5	**(c)**	Analytically determine the balance of non-controlling interests (proof of balance) of S Co as at 31 December 20x6 in the consolidated financial statements. The compilation of the listing of consolidation journal entries is <u>not</u> required. **(3 marks)**

e-Exam Question Number	**Question 1 required:**
6	**(d)** Prepare the equity accounting journal entries in relation to P Co’s associate A Co for the year ended 31 December 20x6. **(9 marks)**
7	**(e)** Analytically determine the balance of investment in A Co (proof of balance) as at 31 December 20x6 in the consolidated financial statements. The compilation of the listing of equity accounting journal entries is <u>not</u> required. **(3 marks)** **(Total: 52 marks)**

Question 2 – Case A and Case B

CASE A

Co X, a lessee, contracted to lease kitchen equipment from a lessor. The kitchen equipment is essential to the operating activities of Co X and is not subject to fluctuations in design or technology. Information relating to the lease arrangement is as follows:

Lease inception date	1 January 20x1
Non-cancellable lease term	4 years
Estimated useful life of the kitchen equipment	10 years
Additional period under an option for Co X to renew the lease at the end of the non-cancellable lease term. Co X will continue to pay the contracted annual lease payment for the additional period if the option is exercised	Additional 2 years
Option for Co X to purchase the equipment at the end of the extended lease term of 6 years	Purchase price of $100,000
Contracted annual lease payment, payable in advance on 1 January at the start of the year	$160,000
Incremental borrowing rate of Co X	5% p.a.
Implicit rate in the lease is not known	

The following residual values of the equipment are estimated at lease inception date:	
• Residual value at the end of the non-cancellable lease term of 4 years	\$380,000
• Residual value at the end of extended lease term of 6 years	\$200,000
• Residual value at the end of the estimated useful life of 10 years	\$0

e-Exam Question Number	Question 2 Case A required:
8	**(a)** Calculate the lease liability as at 1 January 20x1 for Co X in accordance with SFRS(I) 16 *Leases* and prepare the lease amortisation table to show the lease liability balances as at 1 January 20x1, 1 January 20x2 and 1 January 20x3. **(5 marks)**
9	**(b)** Prepare the journal entries for Co X, the lessee, to record the transactions on 1 January 20x1, 31 December 20x1, 1 January 20x2 and 31 December 20x2 in accordance with SFRS(I) 16 *Leases*. Ignore tax effects. **(10 marks)**
10	**(c)** On 31 December 20x6, the actual residual value of the leased asset fell to $60,000. Co X decided not to exercise its purchase option to buy the asset. Show the journal entry to record the forfeiture of the option; state clearly if a profit or loss item arises. You do not need to show the interest-related entry and the depreciation-related entry for 20x6. Ignore tax effects. **(3 marks)**

Question 2 – Case B

Co X is the sole owner of Hotel X, for which the following information applies:

- The name of the hotel has a clear association with Co X which has established this brand name from 1987.
- Management of Hotel X is outsourced to an international chain, Co Y, through a management contract.
- Co Y has full decision-making rights over the day-to-day operations of Hotel X.
- Co Y has also strategic rights to determine the business policies of Hotel X barring only the change of the principal activity of Hotel X.
- Co X has only protective rights to intervene when there is evidence of tarnishing of the reputation of Hotel X.
- Profits from Hotel X are split 40% to Co X and 60% to Co Y.

e-Exam Question Number	**Question 2 Case B required:**
11	**(a)** Applying the principles and requirements of SFRS(I) 1-40 *Investment Property*, explain, with supporting arguments, whether Hotel X should be classified as a fixed asset or investment property of Co X. State any assumptions made, or information required to support your conclusion. **(6 marks)**
12	**(b)** Ignore part (a) above. Assume that Hotel X is classified as a fixed asset of Co X and is measured using the cost model of SFRS(I) 1-16 *Property, Plant and Equipment* on the date of initial recognition, 1 January 20x1. The following quantitative information is available:

- Initial cost of the hotel: $100,000,000
- Estimated useful life of the hotel: 50 years
- Residual value at the end of its useful life: Nil
- Recoverable amount of the building:
  - On 31 December 20x1: $80,000,000
  - On 31 December 20x2: $97,000,000
- Ignore taxes

(i) What is the carrying amount of the hotel as at 31 December 20x1? **(2 marks)**

(ii) What is the depreciation of the hotel for the year ended 31 December 20x2? **(2 marks)**

(iii) What is the impairment loss or reversal of impairment loss in 20x2? **(4 marks)**

e-Exam Question Number	Question 2 Case B required:
13	**(c)** Ignore parts (a) and (b) above. Assume that Hotel X is classified as an investment property of Co X and is measured using the fair value model of SFRS(I) 1-40 *Investment Property* on the date of initial recognition, 1 January 20x1. The quantitative information provided in part (b) applies. Assume that the recoverable amount of Hotel X in part (b) is a close approximation of the fair value of the hotel. Determine the fair value gain or loss of Hotel X in 20x1 and 20x2. **(2 marks)** **(Total: 34 marks)**

Question 3 – (a), (b) and (c)

In December 20x5, Co Z planned to purchase a special equipment which will boost the productivity of its manufacturing operations. The cost of the equipment is $10,000,000. To raise funds on 1 January 20x6 to finance the purchase of the equipment, Co Z is deliberating on two financing options as explained below:

Option 1: Issue Mandatorily Redeemable Preference Shares (MRPS)

- Proceeds from issue of the MRPS: $10,000,000.
- Co Z has a mandatory obligation to repay $10,000,000 to holders of the MRPS at the end of five years from the date of issue.
- Holders of the MRPS do not have the right to convert the preference shares to ordinary shares of Co Z.
- Co Z has a mandatory obligation to pay to holders of the MRPS a coupon rate of 4% per annum on their holdings of the MRPS.

Option 2: Issue Convertible Preference Shares (CPS)

- Proceeds from issue of the CPS: $10,000,000.
- Holders of the CPS have a right to convert the preference shares to Co Z's ordinary shares after 5 years from the date of issue.
- Co Z undertakes to pay 6% per annum to holders of the CPS on their holdings of the CPS, except in situations where Co Z has difficulty in meeting its working capital commitments. The dividends are not cumulative, and Co Z has no obligation to settle dividends in arrears.
- Co Z does not have any obligation to redeem the CPS at any point in time.

The forecast financial information relating to 20x6 for Co Z <u>before</u> applying one of the two options is as follows:

	Forecast 20x6
Interest expense	500,000
Net profit after tax	17,000,000
Total equity	150,000,000
Total liabilities	200,000,000
Total assets	350,000,000

e-Exam Question Number	Question 3 required:
14	**(a)** Assuming the funds were raised on 1 January 20x6, calculate the following ratios for Co Z under each financing option for the year ending 31 December 20x6. Work out the ratios to the <u>last four decimal points</u> (e.g. 0.1234). Ignore tax effects arising from each financing option, the depreciation on and yield from the equipment, and transaction costs. You do not need to calculate the ratios for the <u>unadjusted</u> forecast information. Show your numerator and denominator figures used in the ratios clearly. **(i)** Return on equity (ROE) ROE = Net profit after tax/Total equity **(ii)** Return on assets (ROA) ROA = Net profit after tax/Total assets **(iii)** Debt/Equity (D/E) D/E = Total liabilities/Total Equity **(6 marks)**
15	**(b)** Consider your ratio analysis in part (a) and other factors and evaluate the benefits and disadvantages of each financing option for Co Z. **(5 marks)**

e-Exam Question Number	Question 3 required:
16	**(c)** If the functional currency of Co Z is the Singapore dollar (SGD) and the MRPS and CPS were issued in United States dollars (USD) and the USD is appreciating relative to the SGD, explain if and how ROE, ROA and D/E will change for each option. Calculations are not required.
	(3 marks)
	(Total: 14 marks)

END OF PAPER

