SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER’S REPORT

MODULE: Advanced Financial Reporting (AFF)

EXAMINATION DATE: 11 December 2017

Section 1
General comments

The Candidates have performed well in this examination. The main reason for the good performance was attributable to the higher average scores for Questions 2, 3, and 4. On other hand, Question 1 was not well done. Further analysis and common errors made by the Candidates are detailed in Section 2. The examination continues to be a restricted open book format with Candidates being able to bring in a double-sided A4 page of personal notes for reference.

Candidates are reminded to put in enough time and effort in their preparation for every examination. As the AFF module builds upon the knowledge acquired from the Principles of Financial Reporting (PFF) module, Candidates are expected to revise the PFF topics as part of their preparation for the AFF examination. The level of proficiency required for AFF is also substantially higher than what is required to complete the PFF module successfully, so the level and intensity of preparation and practice should be commensurate to the higher level of proficiency required.

Candidates should also focus on the requirements of each question, and plan their time accordingly. It was noted that a few Candidates could not start or complete Question 4 because too much time was spent on the first few questions.

Section 2
Analysis of individual questions

Question 1

Question 1 was on ‘consolidated financial statements’. The case involved a simple group where the parent acquired control of a subsidiary and significant influence in an associate.

This case also involved the usual purchase price allocation and other inter-company transaction issues. The question required the preparation of the consolidated statement of comprehensive income and consolidated statement of financial position.

Most of the Candidates scored better for the consolidated statement of financial position, compared to that of the consolidated statement of comprehensive income. As noted in the previous AFF examination, Candidates were not able to derive items like ‘profit/total comprehensive income attributable to equity holders of the parent’ and ‘profit/total comprehensive income attributable to non-controlling interests’. In addition, the Candidates could not identify the accounting impact for the unrealised profit of the intercompany sales transactions of the preceding year. The majority of
the Candidates also could not derive the consolidated retained profits, non-controlling interests, and fair value reserves as at the financial year-end.

Many of the Candidates were not well versed with equity accounting for an associate company and could not derive the ‘investment in associate’ balance as at financial year-end. This could be because the Candidates were not aware of the correct accounting treatment for intercompany transactions with the associate. They were also not familiar with the calculation of other comprehensive income attributable from an associate company.

In addition, absence of clear and relevant workings resulted in loss of marks for Candidates, where incorrect amounts / balances were presented in the consolidated financial statements. It was also noted that some Candidates documented their consolidation journal entries, but did not have time to complete the consolidated financial statements, resulting in some loss of marks.

Candidates are reminded that relevant workings are those that show clearly the items that make up the amounts / balances in the consolidated financial statements. As such, consolidation journal entries generally do not constitute workings, especially if Candidates did not show clearly how the amounts in the journal entries attribute to the amounts / balances in the consolidated financial statements.

**Question 2**

Question 2 comprised two parts, one of which was on related party disclosures, and other part tested the Candidates on identification of a professional accountant’s responsibility in relation to the (potential) non-compliance with the requirements of the Singapore Financial Reporting Standards (SFRS) by Management.

Candidates performed well for related party disclosures. Generally, they could identify most of the related parties. For the items and relationships to be disclosed in the financial statements, some Candidates listed the related party transactions disclosures without specific application to the facts in the question. Although the Candidates were able to identify most of the items or transactions that required disclosure in the financial statements, many of them omitted items such as ‘allowance for impairment’ and ‘impairment expense’ pertaining to the outstanding balances from related parties.

Candidates did not fare well on identification of the responsibility in relation to the non-compliance with the requirements of the SFRS. The majority of Candidates either could not identify the Fundamental Principles of ethics that should be complied with or did not state what should be done to deal with the potential non-compliance with the SFRS. There were a number of Candidates who misinterpreted the question and discussed the threats to independence in their answers.
Question 3

Question 3 examined the Candidates on two main areas. The first was on conducting an impairment test and allocation of impairment losses between goodwill and the identifiable assets of the business. The second was on translation of foreign currency financial statements of a subsidiary.

Most Candidates were aware that they should allocate any impairment loss to goodwill first before apportioning the rest of the impairment loss to the identifiable assets of the business. However, most of them did not realise the need to compute the notional goodwill of the non-controlling interests. As a result, they did not derive the correct adjusted carrying amount of the business, leading to the computation of the wrong impairment loss amount.

Candidates generally performed well for the translation of foreign currency financial statements, with most applying the correct exchange rates for the income statement items, assets, and liabilities. However, errors were made when deriving the Singapore dollar (SGD) equivalent for ‘translation difference for the year’, ‘retained profits’ and ‘translation reserves’.

Question 4

Question 4 was on testing the effectiveness of the fair value hedge and the associated journal entries.

Some Candidates computed the wrong items to assess hedge effectiveness. For instance, they concluded the hedge to be ineffective if there was a loss in fair value of the futures contract, i.e. the hedging instrument. This misconception resulted in wrong conclusions drawn and loss of marks.

A few Candidates could not differentiate between a gain and a loss of the hedged item and hedging instrument (i.e. gain on inventory was recorded as a loss), leading to loss of marks in the recording of journal entries. A number of Candidates recorded the wrong journal entries for settlement of the futures contract, implying that they may not understand fully how that instrument works.