**Section 1**  
**General comments**

The Financial Reporting paper requires Candidates to demonstrate competencies in applying accounting standards to complex transactions in integrated problem settings. The overall performance showed that many Candidates fall short of this expectation. While Candidates were able to handle basic parts of the questions, many Candidates were out of their depth with the challenges that are expected in a post-graduate paper.

An assessment of the overall paper suggests that Candidates tended to over-shoot the time on Question 1 (the consolidation question) to the neglect of the remaining questions. That said, there were stellar performances among the answers, which showed that it is possible for a well prepared Candidate to perform well across all questions.

**Section 2**  
**Analysis of individual questions**

**Question 1**

This question was an integrated question that required the application of Singapore Financial Reporting Standard (FRS) 103 *Business Combinations*, FRS 110 *Consolidated Financial Statements*, and FRS 23 *Borrowing Costs*.

Among the transactions featured in this question were intra-group borrowing and capitalisation of intra-group borrowing costs. Candidates should have applied FRS 23 at the group level, which requires the capitalization of external borrowing costs incurred during the construction period. Candidates should have also eliminated the internal borrowing costs and the intra-group loans. A common error was that Candidates capitalised borrowing costs incurred after the construction period in breach of the requirements of FRS 23. A number of Candidates made unnecessary adjustments to non-controlling interests for the downstream transaction. Candidates were also generally not careful with respect to the details concerning the adjustments, e.g. working out depreciation adjustments for incorrect periods or missing out the consolidation adjustments for prior periods.

The question also featured a change in ownership interests without change in control. Many Candidates were not able to calculate correctly the difference between the consideration paid and the carrying amount of the non-controlling interests acquired. As this is a significant feature in the question, marks were lost through poor handling of this segment. In addition, many Candidates eliminated the wrong investment amount in the determination of goodwill.
Candidates did not perform well on the analytical check or proof of balances of non-controlling interests. Many Candidates were not able to work out the goodwill attributable to non-controlling interests after the divestment of ownership interests to the parent. Analytical checks (often referred to as “proof of balances” in practice) are critical review functions that allow a professional accountant to derive a balance independently of the journal entries. At the post-graduate level, Candidates should be thoroughly familiar with analytical procedures that underscore a deeper understanding of the processes in accounting.

Candidates should work towards higher competency in consolidation, which would lead to greater efficiency. Less elaborate presentation and workings could be deployed on simpler transactions; instead, more attention should be given to complex transactions.

Question 2

Question 2 examined the Candidate’s understanding of 'equity' and 'liability' as defined in FRS 32 Financial Instruments: Presentation and the Candidate’s ability to analyse the different impact of two financial instruments on the issuer’s financial ratios. The question also examined the Candidate’s ability to apply FRS 33 Earnings per Share in the case.

Many Candidates cited the lack of a fixed maturity date as a basis for concluding that the perpetual bond was equity in nature. The absence of a fixed maturity date in itself is not conclusive to establish the nature of the instrument. A richer analysis is required and this was not evident in the answers.

Most Candidates were able to compute the correct ratios for the status quo situation. However, a number of Candidates did not get the correct ratios for the alternative scenarios because of errors in the computation of adjusted net profit after tax, equity, and/or liabilities. In a number of cases, it was not possible to identify the figures the Candidates used in calculating the ratios. Candidates are encouraged to present their workings to obtain partial marks should the ratio turn out to be incorrect.

Most answers lacked depth in the evaluation of the alternative financing arrangements and justification of the recommended arrangement. The answers presented haphazard analysis rather than a systematic ranking of ratios and a deeper analysis of what each ratio suggests.

On the Earnings per Share calculations, most Candidates were able to compute the Basic Earnings per Share metric. However, many Candidates were not able to compute Diluted Earnings per Share correctly. Many Candidates got the weighted average number of shares and the interest adjustment wrong for the Diluted Earnings per Share calculation.

Question 3

This question dealt with accounting for a construction contract and an Available-for-sale debt asset. Candidates had to demonstrate a competent understanding of prevailing standards, FRS 11 Construction Contracts and FRS 39 Financial Instruments: Recognition and Measurement. The question also required the Candidates to account for tax effects as required by FRS 12 Income Taxes.
Most Candidates were not able to identify the costs that qualify as construction costs under FRS 11. As such, the percentage of completion was incorrect in the first year. However, most Candidates applied the right approach in determining current revenue and current costs, earning marks for the process.

The question also required Candidates to show the extracts of the statement of financial position relating to construction work-in-progress, net of progress billings and related deferred tax balance. Most Candidates were able to deduct the correct progress billings from construction work-in-progress. However, a number of Candidates incorrectly showed current, rather than cumulative costs and attributable profit in the statement of financial position.

Many Candidates were not able to identify the taxable temporary differences and hence not able to compute the correct deferred tax liability amount on the statement of financial position.

The last part of the question required Candidates to prepare journal entries with respect to an Available-for-sale debt security and its tax effects. Many Candidates were not able to determine the correct interest income based on the effective interest approach. Many answers also showed the wrong fair value change taken to other comprehensive income.

Many Candidates also incorrectly recognised the tax charge as tax expense rather than a charge to other comprehensive income in accordance with FRS 12.

**Question 4**

Question 4 had two parts. The first part was a case, which required Candidates to apply the principles in FRS 110 *Consolidated Financial Statements* to determine if a sponsor of a Real Estate Investment Trust (REIT) had control over the REIT. The second part related to the equity accounting of a foreign associate.

A common error in the case analysis was to extract paragraphs from the standard without providing any analysis or application of the principles to the case. Marks were awarded for the application of the requirements to the facts of the case and not extraction of a standard’s text.

A common error in the translation segment was to use the rate on the payment date (instead of the declaration date) to translate the dividend declared. Retained earnings brought forward were incorrect in many answers. A re-constructed opening statement of financial position was necessary to determine the opening retained earnings.

A number of Candidates used the wrong rate to translate share capital and other comprehensive income. Many Candidates showed the translated total for equity and liability to be the same as total assets but failed to indicate that a foreign currency translation reserve arises to permit the equality.