MODULE: Principles of Financial Reporting (PFF)

EXAMINATION DATE: 11 December 2017

Section 1
General comments

As in past examinations, the Candidates appeared generally able to answer basic accounting questions and carry out general preparation of cash flow statement items. They could record foreign currency transactions on initial recognition date but many could not do the revaluations of monetary assets and wrongly revalued inventory, a non-monetary asset. Pleasingly, many Candidates understood the professional ethical considerations in the questions on professional ethics.

Candidates were mainly able to record simple transactions, but many Candidates struggled to handle more complex adjustments such as commission revenue, deferred tax, and classifications into inventory, investment property, and property, plant, and equipment.

Candidates should read and do more exercises from the main accounting textbooks used in university accounting courses (a list of suggested textbook is available from the SAC website [www.sac.gov.sg](http://www.sac.gov.sg)) and read the accounting standards. Many Singapore Financial Reporting Standards (SFRS) have guidance notes and illustrative examples available from the Accounting Standards Council website ([www.asc.gov.sg](http://www.asc.gov.sg)). Candidates are strongly encouraged to use these documents as an additional practice resource. This will build their foundation on the topics covered in this module.

Section 2
Analysis of individual questions

Question 1

This question required Candidates to prepare a statement of cash flows for a general merchandising company.

The areas where Candidates did well were:

1. A major part of the operating activities section was prepared well; and

2. Candidates who showed workings were able to show understanding of the more complex concepts, especially for areas relating to equipment, available for sale securities, and land.

Improvements required include:

1. Candidates must show workings for the numbers derived. Partial marks cannot be awarded if workings are not provided;
2. Salary expense was often included erroneously as one of the adjustment items under operating activities;

3. Many of the items were not classified in the correct category of activities (operating, investing, and financing); and

4. Many Candidates were careless in the adjustments e.g. ‘inflows’ were written as ‘outflows’.

Candidates are strongly advised to work through the Illustrative Examples from the ASC website in relation to SFRS 7 Statement of Cash Flows.

Question 2

This question was presented in two parts, examining different aspects of foreign currency translation.

Part I (a) required accounting entries to record foreign currency transactions and translations to functional currency, while Part II (a) required determination of functional currency in accordance with SFRS 21 The Effects of Changes in Foreign Exchange Rates.

Most Candidates could record journal entries for sales, cash collected from customers, and available-for-sale security investment purchases correctly. However, many Candidates did not use the average rate for the year to translate foreign currency transactions during the year (sales, purchases, cash received, and paid) into Singapore dollars.

On cost of inventory purchased on 30 September 20x5 and sold on 31 March 20x6, many Candidates did not use the historical rate on 30 September 20x5 to translate into Singapore dollars. Some Candidates carried out revaluations for inventory, although inventory is not a monetary asset (See SFRS 21:16).

Exchange differences on cash balances were not computed or computed wrongly in many cases.

On available-for-sale security revaluations, many Candidates separated the revaluations to foreign exchange gain/loss (P/L) and revaluation reserve erroneously.

Finally, most Candidates could identify sales, labour, and expenses as the primary factors to determine the functional currency, but were unable to draw appropriate conclusions (see SFRS 21:9-13).

Question 3

This question was presented as three mini cases and tested Candidates’ understanding of professional ethics (Ethics Pronouncement 100 ISCA Code of Professional Conduct and Ethics) and accounting standards SFRS 16 Property,
Plant, and Equipment, SFRS 2 Inventories, and SFRS 40 Investment Property, as well as SFRS 113 Fair Value Measurement.

The area where most Candidates did well was in correctly identifying the threat to the Fundamental Principles and justified their opinion, as well as state an appropriate course of action (Case B).

Unfortunately, most Candidates were not able to apply the appropriate concepts of SFRS 16, SFRS 2, and SFRS 40 to Case A and Case C. For instance, many Candidates did not identify non-refundable Goods and Services Tax (GST) as part the cost of the asset (SFRS 16:16(a)). Although GST is a tax, it is imperative that Candidates can accurately identify the various components that make up the cost of an asset. Advice to future PFF, AFF, and ASF Candidates, please do not be fooled into thinking that taxation is not relevant to financial reporting or audit.

In addition, several Candidates merely regurgitated the definitions of historical cost and fair value for Case C Part (b) rather than identifying the appropriate characteristics.

**Question 4**

This question required the application of various standards to record transactions and prepare a statement of profit/loss and other comprehensive income.

On recording the transactions, Candidates did fairly well except for the following weaker areas:

- Some Candidates computed the fair value loss using the wrong reference point (Present Value, PV) instead of the Market Value;

- A number of Candidates could not differentiate which type of restructuring costs warrant recognition, that is recognition criteria on restructuring;

- A number of Candidates did not consider the deferred tax impact or computed it wrongly;

- Some Candidates used a full month instead of half a month when making the rental income adjustment;

- Many Candidates were not able to adjust commission revenue correctly; and

- While most Candidates were familiar with the income statement format, the line items were not correctly labelled in many cases.