

A Practical Guide to
Financial Reporting
Standards (Singapore)
4th Edition



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Ng Eng Juan

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A Practical Guide to Financial Reporting Standards (Singapore) 4th Edition

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Associate Professor

Nanyang Business School

Nanyang Technological University



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Fourth edition.....2009

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First edition2003

Second edition2005

Reprinted.....2006

Third edition.....2007

Reprinted.....2008

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Published by CCH Asia Pte Limited

Printed by Seng Lee Press Pte Ltd

ISBN: 978-981-4248-09-9

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Prof Ng has had many years of working experience in an international public accounting firm. He is currently with the Nanyang Business School of the Nanyang Technological University, teaching financial accounting courses in the B Acc and MBA programmes. Over the years, he has won several teaching awards, including the "Teacher of the Year".

Prof Ng is actively involved in the accounting profession. He has been a member of the Accounting Standards Committee and China Committee of ICPAS for many years. He currently serves as external examiner and advisor to several accounting professional/degree programmes in Singapore, UK and China. He also provides consultancy services to public accounting firms and other organisations and conducts regular executive development programmes for accountants and managers. He was awarded "CPE Trainer of the Year" by ICPAS.

Prof Ng's current research interests are in the area of accounting standards and practices. Among his publications are more than 20 professional accounting books including "Consolidated Accounts", "Cash Flow Statements", "Accounting for Income Taxes", "Consolidated Financial Statements (Singapore)", "Accounting Disclosure Handbook (Singapore)", "Singapore GAAP", "Malaysia GAAP", and "A Practical Guide to Financial Reporting Standards (Malaysia)".

The 4th edition covers all the FRS 2015-2016 that have been issued by the Accounting Standards Board (ASB) on 15 July 2016.

I am deeply grateful to my students and colleagues in NTU, and also to the many accounting practitioners who attended my CPE courses. This book is greatly enriched by what I have learnt from their feedback and experiences.

I am particularly pleased to be informed once and again by accounting practitioners and students that the earlier editions of this book had served their needs well. I hope accounting practitioners and students will continue to benefit from this 4th edition.

Ng Eng Juan

May 2016

Dedicated to

My parents,

My wife, and

My three sons.

GENERAL PREFACE CONTENTS

Since the publication of the third edition of "A Practical Guide to Financial Reporting Standards (Singapore)" in June 2007, there have been significant changes to the Financial Reporting Standards (FRS) in Singapore.

The International Financial Reporting Standards (IFRS) were expected to undergo major changes in 2009. However, partly due to the 2008/09 world economic crisis, the International Accounting Standards Board has diverted much of its effort away from issuing new/revised international accounting standards. As a consequence, the amendments to FRS are not as drastic as previously expected. Nonetheless, there are still major changes to the FRS in Singapore that warrant a new edition of the book.

The major changes incorporated in this 4th edition are:

- Two revised FRS, namely, FRS 1 and FRS 23;
- Two revised IFRS which have not been adopted as FRS, namely, IAS 27 and IFRS 3;
- Changes to 20 FRS arising from the Improvements to FRSs;
- Changes to the various FRS arising from the numerous amendment to FRS; and
- Changes to the various FRS arising from new INT FRS.

The revised FRS 1 and FRS 23, which are operative from 1 January 2009, are presented as new chapters. The revised IAS 27 and IFRS 3, which are not yet operative in Singapore, are included as appendices to the chapters on the existing FRS 27 and FRS 103 respectively. The changes arising from the Improvement to FRSs, the various amendments, and the new INT FRS are incorporated into the relevant chapters. For ease of reference, the Improvement to FRSs is separately presented in Appendix A and the various amendments to FRS in Appendix B of this book.

This 4th edition covers all the FRS that have been issued by the Accounting Standards Council (ASC) as at 30 May 2009.

I am deeply grateful to my students and colleagues in NTU, and also to the many accounting practitioners who attended my CPE courses. This book is greatly enriched by what I have learnt from their feedback and experiences.

I am particularly pleased to be informed time and again by accounting practitioners and students that the earlier editions of this book had served their needs well. I hope accounting practitioners and students will continue to benefit from this 4th edition.

Ng Eng Juan

May 2009

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100 Introduction

Financial Reporting Standards (FRS) are the accounting standards issued by the Accounting Standards Council (ASC), a statutory board set up under the *Accounting Standards Act*.

The ASC replaced the Council on Corporate Disclosures and Governance (CCDG) in accounting standards setting in Singapore, effective 1 November 2007. (The CCDG was set up in 2003 to prescribe accounting standards for companies incorporated in Singapore, effective 1 January 2003.)

When ASC took over from the CCDG, it adopted all the accounting standards, interpretations, practice directions and other directives previously issued by the CCDG. These documents, previously issued by the CCDG remain valid and in force unless otherwise stated, as provided for under sec 8(4) of the *Accounting Standards Act*.

For annual periods beginning on or after 1 January 2003, all Singapore-incorporated companies are required under the *Companies Act* to comply with the FRS, previously issued by the CCDG. Since 1 November 2007, companies are required to comply with the FRS issued by the ASC.

The ASC will also prescribe accounting standards for charities, co-operative societies and societies.

200 Accounting standards setting in Singapore

Prior to 1 January 2003, accounting standards setting in Singapore was entrusted to the Institute of Certified Public Accountants of Singapore (ICPAS), the national professional accounting body established under the Accountants Act 1987.

The ICPAS is governed by a council comprising eight representatives each from its practising and non-practising members and three representatives appointed by the Minister for Finance.

The accounting standards issued by ICPAS were titled Statements of Accounting Standard (SAS) and Interpretations of Statement of Accounting Standard (INT). The SAS and INT were respectively based on the International Accounting Standards (IAS) and the Interpretation of the Standing Interpretations Committee (SIC) issued by the International Accounting Standards Board (IASB). Other than a few IAS which were slightly modified before adoption as SAS and a few SIC which were not adopted as INT in view of local circumstances, the SAS and INT were the same as their counterparts in IAS and SIC.

To position Singapore as a key business and financial centre, the government felt a need to give investors the confidence that the financial statements of Singapore-incorporated companies are in compliance with internationally accepted accounting standards. Further, recent developments in

other jurisdictions have also highlighted the importance of having good corporate governance and disclosure practices (see CCDG website). It is with this back-drop that the CCDG was launched.

The CCDG was launched by the Minister for Finance on 16 August 2002, following the amendment to the Companies Act in July 2002.

Effective 1 January 2003, the CCDG prescribed accounting standards in Singapore. Under this arrangement, ICPAS ceased to issue accounting standards; its role in the accounting standards setting process was reduced to that of providing technical expertise and managing the feedback process.

One significant consequence of the change in 2003 was that compliance with accounting standards became legally enforceable. In fact, the accounting standards prescribed by CCDG were embodied in the *Companies (Accounting Standards) Regulations* and became part of the *Companies Act*. Section 204 of the *Companies Act* provides that any director of a company which fails to comply with the accounting standards shall be guilty of an offence and shall be liable on conviction to a fine not exceeding \$50,000 (or a fine not exceeding \$100,000 and/or imprisonment term not exceeding three years, if the offence is committed with intent to defraud).

On 27 August 2007, the *Accounting Standards Act* was passed in Parliament and the Act came into effect on 1 November 2007. With the enactment of the *Accounting Standards Act*, the ASC took over the task of prescribing accounting standards from CCDG, effective 1 November 2007.

The ASC is responsible only for the formulation and promulgation of accounting standards. The monitoring and enforcement of compliance with FRS remain the prerogative of the respective regulators, namely ACRA for companies, Commissioner of Charities for charities, Registrar of Co-operative Societies for co-operative societies, and Registrar of Societies for societies.

The chairman and members of the ASC are appointed by the Minister of Finance, and the council's composition comprises representatives from stakeholders groups such as the accounting profession, the users and preparers of financial statements, academia and the Government.

The role of ICPAS remains the same as it was under the CCDG regime.

Accounting standards in Singapore

300 Accounting standards in Singapore

The *Companies (Accounting Standards) Regulations* provides that the Accounting Standards applicable to Singapore-incorporated companies shall be known as the Financial Reporting Standards and shall comprise the following:

- (a) Preface to Financial Reporting Standards, as set out in the First Schedule;
- (b) Financial Reporting Standards, as set out in the Third Schedule and the Fourth Schedule;
- (c) Framework for the Preparation and Presentation of Financial Statements, as set out in the Fifth schedule;
- (d) Preface to the Interpretations of Financial Reporting Standards, as set out in the Sixth Schedule; and
- (e) Interpretations of Financial Reporting Standards, as set out in the Seventh Schedule.

310 Preface to Financial Reporting Standards

The Preface to Financial Reporting Standards, as set out in the First Schedule of the *Companies (Accounting Standards) Regulations 2002*, spells out the following:

- (a) The accounting standards prescribed by the CCDG (now the ASC) are known as Financial Reporting Standards (FRS), which are closely modelled after the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (para 1).
- (b) FRS set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements (para 2). FRS are based on the FRS Framework, which addresses the concepts underlying the information presented in general purpose financial statements (para 2).
- (c) FRS apply to all general purpose financial statements (para 3).
- (d) Standards in FRS include paragraphs in bold type, which indicate the main principles, and plain type, which have equal authority (para 7).
- (e) An individual standard should be read in the context of the objective stated in that standard and the Preface (para 7).

- (f) Interpretations of FRS are prepared by the CCDG (now the ASC) to give authoritative guidance on issues that are likely to receive divergent or unacceptable treatment, in the absence of such guidance (para 8).
- (g) Companies are required to comply with the *Companies (Accounting Standards) Regulations 2002* in preparing their financial statements covering periods beginning on or after 1 January 2003 (para 11). Where the operative date of an FRS is before 1 January 2003, the FRS and any relevant transitional provisions contained therein shall apply in relation to periods before 1 January 2003 only to determine the carried forward balances of financial statements covering periods beginning on or after 1 January 2003 (para 12). In respect of an FRS which becomes operative for financial statements covering periods on or after 1 January 2003, it shall apply from the operative date as specified in the FRS (para 12).
- (h) The preparer of financial statements should take into consideration the applicability of the FRS Framework (see 330 below), all existing FRS (see 320 below) and all existing INT FRS (see 350 below) when preparing a financial statement (para 10).

320 Financial Reporting Standards

The Financial Reporting Standards are based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB).

Appendix A shows the FRS that have been issued by the ASC as at 30 May 2009 with the corresponding IAS/IFRS.

330 Framework for the Preparation and Presentation of Financial Statements

The Framework for the Preparation and Presentation of Financial Statements (FRS Framework) sets out the concepts that underlie the preparation and presentation of financial statements.

The purpose of the FRS Framework, as set out in the Fifth Schedule of the *Companies (Accounting Standards) Regulations 2002*, is to:

- (a) assist preparers of financial statements in applying FRS and in dealing with topics that have yet to form the subject of a FRS;
- (b) assist auditors in forming an opinion as to whether financial statements conform with FRS; and
- (c) assist users of financial statements in interpreting the information contained in financial statements prepared in conformity with FRS.

- The FRS Framework specifically deals with:
- (a) the objective of financial statements;
 - (b) the qualitative characteristics that determine the usefulness of information in financial statements;
 - (c) the definition, recognition and measurement of the elements from which financial statements are constructed; and
 - (d) concepts of capital and capital maintenance.

Appendix C presents a further discussion of the FRS Framework.

340 Preface to Interpretations of Financial Reporting Standards

The Preface to Interpretations of Financial Reporting Standards, as set out in the Sixth Schedule of the *Companies (Accounting Standards) (Amendment) Regulations 2003*, spells out, among other things, the following:

- (a) The objective of the Interpretations of Financial Reporting Standards (INT FRS) is to enhance the rigorous application of the FRS and to improve comparability of financial statements that are prepared using the FRS by interpreting potentially contentious issues.
- (b) INT FRS are part of the authoritative literature issued by the CCDG (now the ASC). Therefore financial statements should not be described as complying with the Financial Reporting Standards unless they comply with all the requirements of each applicable FRS and each applicable INT FRS issued by the CCDG (now the ASC).
- (c) When a company has not adopted an INT FRS which has been issued, but not yet become mandatory, the company is encouraged to disclose the nature of the future change in accounting policy and an estimate of the effect on its net profit or loss and the financial position, or a statement that such an estimate has not been made.
- (d) The application of the INT FRS should be guided by the spirit and rationale behind the FRS Framework, the FRS and the INT FRS.

350 Interpretations of Financial Reporting Standards

The Interpretations of Financial Reporting Standards (INT FRS) are based on (a) Interpretations of International Accounting Standards or Interpretations of International Financial Reporting Standards issued by the Standing Interpretations Committee (SIC) of the International Accounting Standards Committee (which are officially referred to as SIC and (b) Interpretations of International Financial Reporting Standards issued by the International Financial Reporting Interpretation Committee (IFRIC) of the International Accounting Standards Board (which are officially referred to as IFRIC).

Appendix B shows the INT FRS that have been issued by ASC as at 30 May 2009 with the corresponding SIC/IFRIC.

400 Appendix A

Financial Reporting Standards (Issued as at 30 May 2009)

		IAS/IFRS Equivalent
FRS 1	Presentation of Financial Statements	IAS 1
FRS 2	Inventories	IAS 2
FRS 7	Cash Flow Statements	IAS 7
FRS 8	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8
FRS 10	Events after the Balance Sheet Date	IAS 10
FRS 11	Construction Contracts	IAS 11
FRS 12	Income Taxes	IAS 12
FRS 16	Property, Plant and Equipment	IAS 16
FRS 17	Leases	IAS 17
FRS 18	Revenue	IAS 18
FRS 19	Employee Benefits	IAS 19
FRS 20	Accounting for Government Grants and Disclosure of Government Assistance	IAS 20
FRS 21	The Effect of Changes in Foreign Exchange Rates	IAS 21
FRS 23	Borrowing Costs	IAS 23
FRS 24	Related Party Disclosures	IAS 24
FRS 26	Accounting and Reporting by Retirement Benefit Plans	IAS 26
FRS 27	Consolidated and Separate Financial Statements	IAS 27