

# Singapore CA Qualification (Foundation) Examination

7 December 2023

## Assurance

### INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **3 hours 15 minutes**.
2. This examination paper has **FOUR (4)** questions and comprises **TWENTY-ONE (21)** pages (including this instruction sheet and Appendix A). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is a restricted open book examination. You are allowed to have only the following materials with you at your exam location:
  - One A4-sized double-sided cheat sheet
  - One A4-sized double-sided blank scratch paper
4. During the examination, you are allowed to use your laptop and any calculators that comply with the ACRA's regulations. Please note that smart watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
5. 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.
6. This examination paper and all video recordings of this exam are the property of the Accounting and Corporate Regulatory Authority.

### MODULE-SPECIFIC INSTRUCTIONS:

7. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
8. 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, the Singapore Standards on Auditing (SSA) and the Code of Professional Conduct and Ethics issued by the Institute of Singapore Chartered Accountants (ISCA) as at the date of this examination.

**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.**

**\*\*VERY IMPORTANT NOTICE\*\***

1. Your question paper is attached under the "**Resource**" tab found at the bottom right of **EACH** question.

**Other important information:**

2. You will **only be allowed** to access the Excel function from your computer.
3. You are **NOT ALLOWED** to access any websites or reference materials (except for your A4 sized double sided cheat sheet) during the exam.
4. You are **NOT ALLOWED** to print the question paper.
5. **Please take note that your screen will be monitored throughout the examination. If you are found to have accessed unauthorised materials or 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 6865 9365

6. **You do not need to fill in an answer for this question.**

### **Question 1 – (a) to (e)**

You are an audit senior with the audit firm DEKP LLP and you are assigned to mentor an intern, Ali, for the audit of YY Pte Ltd (YY) for the financial year ended 30 November 2023. YY is a retailer of plastic wares such as boxes, plates, cups, etc. Ali has been assigned to perform audit procedures on subsequent events. Some of the procedures to be performed by Ali are as follows:

- (1) Review post year-end bank statements and identify all deposits and withdrawals of \$10,000 and above. Investigate the nature of these deposits and withdrawals to determine whether they are adjusting events or non-adjusting events.
- (2) Compare year-end fixed asset register and post year-end fixed asset register to identify post year-end addition of fixed assets and post year-end disposal of fixed assets and determine how these should be reflected in the year-end financial statements.
- (3) Review minutes of Directors meeting conducted after year end.

Ali has some questions after reading the above procedures. Assist Ali in the following requirements.

**e-Exam  
Question  
Number**

**2**

**Question 1 required:**

SFRS(I) – 10 defines:

- Adjusting events as events after the reporting period that provide evidence of conditions that existed at the end of the reporting period.
  
  - Non-adjusting events as events after the reporting period that are indicative of conditions that arose after the reporting period.
- (a)** Provide **THREE** examples of adjusting events and **TWO** examples of non-adjusting events. You do not need to use examples from the case information.

**(5 marks)**

In relation to procedure (1), a deposit on 7 December 2023 is cash received from an insurance company RIP Insurance (RIPI) for an insurance claim submitted by YY on 1 April 2023. There was a letter from RIPI dated 1 November 2023 that the claim was approved and a pay-out would occur in December 2023. The insurance claim is not reflected in the financial statements for the year ended 30 November 2023.

**e-Exam  
Question  
Number**

**3**

**Question 1 required:**

**(b)** Explain to Ali whether, and if so, how, the insurance claim and pay-out should be recorded or disclosed in the financial statements for the year ended 30 November 2023. You should also explain why it should be accounted for in the way suggested by you.

**(5 marks)**

In relation to procedure (2), a new warehouse was added on 3 December 2023. A purchase contract was signed on 28 November 2023 to buy the warehouse. This transaction is not reflected in the financial statements for the year ended 30 November 2023.

**e-Exam  
Question  
Number**

**4**

**Question 1 required:**

**(c)** Explain to Ali whether, and if so, how, the acquisition of the warehouse should be recorded or disclosed in the financial statements for the year ended 30 November 2023. You should also explain why it should be accounted for in the way suggested by you.

**(5 marks)**

In relation to procedure (3), two resolutions were passed by the Directors:

- The approval of the amount of performance bonus to be paid to all employees. The bonus was announced to employees on 8 January 2023, to be based on meeting a profit before tax target for the financial year end of 30 November 2023.
- On 18 December 2023, the Board approved the payment to ZZ Pte Ltd (ZZ) to settle a legal claim brought by ZZ against YY on 1 May 2023. The amount had been agreed with ZZ and would be included in the out-of-court settlement agreement to be signed on 8 January 2024.

The legal claim was disclosed as a contingent liability in the draft financial statements for the year ended 30 November 2023 although the management of YY had initiated out-of-court settlement negotiations with ZZ on 1 August 2023.

**e-Exam  
Question  
Number**

**Question 1 required:**

**5**

- (d)** Explain to Ali whether, and if so, how, the approval of the out-of-court settlement payment of the legal claim should be reflected in the financial statements for the year ended 30 November 2023. You should also explain why it should be accounted for in the way suggested by you.

**(5 marks)**

**6**

- (e)** Explain to Ali whether, and if so, how, the approval of amount of bonus payment should be reflected in the financial statements for the year ended 30 November 2023. You should also explain why it should be accounted for in the way suggested by you.

**(5 marks)**

**(Total: 25 marks)**

## Question 2 – (a), (b), (c) and (d)

R2U Pte Ltd (R2U) is a company that sells vending machines and leases out vending machines for lease income. Its financial year end is 30 November 2023. You are the audit senior assigned to assist the audit manager in planning the audit of R2U's financial statements. The audit manager has provided you with the following information:

- R2U accounts for vending machines for lease as fixed assets and accounts for vending machines for sale as inventories. There is no difference in the vending machine models for sale and for lease. When new vending machines are ordered, R2U designates specific machines for sale and others for lease. Each vending machine has a unique serial number assigned by the manufacturer.
- The selling price of the vending machines range from \$2,000 to \$8,000 each, depending on the size and configuration of the vending machine. Customers are billed for 40% of the contract price upon signing the contract. Customers are required to pay this 40% of contract price in full before customisation of the vending machines begins. Customisation takes an average of 1 week to complete. Customers will be billed for the remaining 60% upon delivery of the vending machines. Customers will sign off a delivery test checklist as evidence of acceptance of delivery.
- R2U charges \$1,000 to \$5,000 for a one-year lease of the vending machines. The lease fee is payable in full at the commencement of the lease.
- R2U provides a vending machine maintenance service for an annual fee of \$1,200 payable at the end of the lease contract. This covers the monthly maintenance of one machine for 12 months.
- Customers who lease the vending machines are required to place a refundable deposit equivalent to one month's lease charge. R2U raises an invoice for the deposit.



- The sole owner-director of R2U is Jay Walker. He is actively looking for a buyer to buy over all his shares in R2U and then retire. He has started offering promotional deals to secure more contracts to make the company more attractive to potential buyers. He believes a strong financial performance will be key to him selling the business at a higher price and in a shorter time.

**e-Exam  
Question  
Number**

**Question 2 required:**

SSA 200 explains that the risks of material misstatement may exist at two levels:

- the overall financial statement level; and
- the assertion level for classes of transactions, account balances and disclosures.

Risks of material misstatement at the overall financial statement level refer to risks of material misstatement that relate pervasively to the financial statements as a whole and potentially affect many assertions.

SSA 330 requires auditors to:

- design and implement overall responses to address the assessed risks of material misstatement at the financial statement level; and
- design and perform further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

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- (a)** Using the information in the case, identify and explain **ONE** risk of material misstatement at the overall financial statement level and design **TWO** overall responses to this risk.

**(3 marks)**

**e-Exam  
Question  
Number**

**Question 2 required:**

**8**

**(b)** For each of the following transactions or account balances, identify **ONE** most significant risk of material misstatement at the assertion level and design **TWO** audit procedures to be performed:

**(i)** Revenue from the sale of vending machines.

**(3 marks)**

**(ii)** Revenue from the lease income (rental income).

**(3 marks)**

**(iii)** Revenue from the maintenance service.

**(3 marks)**

**(iv)** The refundable deposit from leasing customers.

**(3 marks)**

**9**

**(c)** Identify **ONE** difficulty in the performance of audit procedures to verify the existence of vending machines recorded as fixed assets and design **TWO** audit procedures that could be performed to overcome this difficulty.

**(6 marks)**

**e-Exam  
Question  
Number**

**10**

**Question 2 required:**

**(d)** One difficulty in the year-end inventory count is to ensure vending machines that are fixed assets are not included in the count:

**(i)** Recommend **ONE** procedure that the management could perform to achieve this objective.

**(2 marks)**

**(ii)** Design **ONE** audit procedure to be performed on the inventory count day to detect any fixed assets that are wrongly included in the inventory count.

**(2 marks)**

**(Total: 25 marks)**

### Question 3 – (a), (b), (c) and (d)

Fishy King Pte Ltd (FK) is a new client of your firm's audit firm, DEKP LLP. FK has been in operation for two years and it operates a chain of fish soup stalls in food courts in Singapore. Its financial year end is 30 November 2023. FK buys its fish supplies from local suppliers and stores them in a central cold room overnight, before they are supplied to the various fish soup stalls the next business day.

The cold room and all the equipment, furniture and fittings in the cold room are recognised as fixed assets in the statement of financial position of FK, in accordance with SFRS(I) 1 - 16 *Property, Plant and Equipment*. The imported fish are recognised as inventories, in accordance with SFRS(I) 1 - 2 *Inventories*.

FK does not maintain inventory records for its fish. Fish purchases are recorded as cost of goods sold when supplier invoices are received and processed. Suppliers deliver their fish together with their invoices. At year end, FK conducts a full inventory count at the cold room to determine the quantity of fish on hand as at year end. FK applies First in, First out (FIFO) and uses the last supplier invoices received at year end to determine cost of the fish held at year end. With the quantity and cost determined, FK recognises year-end inventory using the following journal entries:

Dr Inventory \$xx  
    Cr Cost of goods sold \$xx

According to the audit plan, the auditor will attend the year-end inventory count. However, a fire broke out a day prior to the inventory count and destroyed the cold room and the contents in the cold room. Management is not allowed entry to the site as the fire is under investigation by the authorities. However, the investigating authority has handed some photos of the cold room to the management.

The management used these photos to estimate the impairment loss of the fixed assets associated with the cold room.

A safe containing cash was also destroyed by the fire. Based on memory, management estimated about \$40,000 was in the safe at the time of the fire. There is no other cash on hand.

Impairment losses of \$40,000 and \$260,000 are recognised on the destroyed cash and damaged fixed assets. The carrying amounts of fixed assets, after adjustment for the above factors, is \$240,000. Materiality level is set at \$110,000. After adjusting for the impairment loss, the profit before tax is \$1,440,000.

**e-Exam  
Question  
Number**

**11**

**Question 3 required:**

- (a)** Discuss how the above TWO issues (i.e. destroyed cash and damaged fixed assets) would affect the determination of the audit opinion on the financial statements. Your answer should include:
- (i)** An explanation of the TWO issues, i.e. whether the issues relate to misstatement or a lack of evidence. **(3 marks)**
- (ii)** An explanation on whether the TWO issues are material:
- Individually; and
  - In aggregate
- (3 marks)**
- (iii)** An explanation on whether the issues are, in aggregate, pervasive. **(2 marks)**
- (iv)** A brief description of a proposed audit opinion. **(2 marks)**

**e-Exam  
Question  
Number**

**12**

**Question 3 required:**

- (b)** Assuming the fire did not occur prior to the year end but occurred after the year end, explain how the event should be reflected in the financial statements, in accordance with SFRS(I) 1 - 10 *Events After Reporting Date*.

**(3 marks)**

FK's prior years' financial statements were not audited as FK qualified for audit exemption since incorporation two years ago.

**e-Exam  
Question  
Number**

**13**

**Question 3 required:**

- (c)** Explain how the fact that FK's prior years' financial statements were not audited could be reflected in the auditor's report.

**(2 marks)**

**e-Exam  
Question  
Number**

**14**

**Question 3 required:**

**(d)** For each of the following items, describe **TWO** audit procedures to be performed:

**(i)** Opening balance for cash at bank.

**(2 marks)**

**(ii)** Opening balance for tax payable.

**(2 marks)**

**(iii)** Opening balance for trade payable.

**(2 marks)**

**(iv)** Opening balance for inventory.

**(2 marks)**

**(v)** Opening balance for provision for legal claim.

**(2 marks)**

**(Total: 25 marks)**

#### Question 4 – (a) to (f)

You are an audit manager of DEKP LLP, an audit firm. You are preparing a seminar to train the interns on basic audit procedures. The interns have compiled a list of procedures that look similar for you to go through with them. For each of the procedures listed, describe the procedures to be performed, and the population from which the items are to be selected.

**e-Exam  
Question  
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#### **Question 4 required:**

You should present your answers in the following format:

For example:

*Inventory net realisable value (NRV) test – Accuracy, Valuation allocation [previously known as the “valuation” assertion]*

The audit procedure:

- Select slow-moving inventory items, i.e. those more than 120 days old, and trace to post year-end sales invoices

Population from which items are selected:

- Inventory ageing report

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**(a)** Subsequent receipt test relating to year-end trade receivables.

**(i)** Existence assertion **(2 marks)**

**(ii)** Completeness assertion **(2 marks)**



**e-Exam  
Question  
Number**

**Question 4 required:**

- |           |   |                  |
|-----------|---|------------------|
| <b>16</b> | <b>(b)</b> Subsequent payment test relating to year-end trade payables and accrual. |                  |
|           | <b>(i)</b> Existence assertion  | <b>(2 marks)</b> |
|           | <b>(ii)</b> Completeness assertion  | <b>(2 marks)</b> |
| <b>17</b> | <b>(c)</b> Physical inspection of fixed assets.                                     |                  |
|           | <b>(i)</b> Existence assertion  | <b>(2 marks)</b> |
|           | <b>(ii)</b> Completeness assertion  | <b>(2 marks)</b> |
| <b>18</b> | <b>(d)</b> Sales transactions test.   |                  |
|           | <b>(i)</b> Occurrence assertion   | <b>(2 marks)</b> |
|           | <b>(ii)</b> Completeness assertion  | <b>(2 marks)</b> |

You will be explaining to the interns the factors considered by the firm in deciding whether to accept a client and an audit engagement.

**e-Exam  
Question  
Number**

**Question 4 required:**

You should present your answers in the following format:

For example, a factor to consider is the level of audit fee.

Brief description:

- The level of audit fee should be high enough to cover the cost and risk of the audit engagement.

Example:

- The client's budget for the audit fee is too low. The firm may inappropriately reduce the extent of audit procedures performed and compromise the quality of the audit. The engagement should not be accepted.

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**(e)** For each of the factors listed below, provide a brief description and an example where the firm may not accept the client or the engagement.

**(i)** Competence **(2 marks)**

**(ii)** Objectivity and independence **(2 marks)**

**(iii)** Results of know-your-client screening required by anti-money laundering legislation **(2 marks)**

One of your audit clients requested that you act as their temporary Finance Manager for six months because the existing Finance Manager will be on hospitalisation leave for six months.

**e-Exam  
Question  
Number**

**20**

**Question 4 required:**

- (f) Identify and explain the most significant ethical threat if you were to act as their temporary Finance Manager for six months and conclude whether the firm should agree to this request.

**(3 marks)**

**(Total: 25 marks)**

**END OF PAPER**

## Appendix A – Common verbs used by the Examiners

Verb	Description
<b>Conclude / Draw conclusions</b>	Form a judgment, or determine the outcome, or resolve an issue, by using the facts presented. An example might be "Conclude whether to outsource the human resource function".
<b>Describe</b>	<b>Describe</b> requires you to provide the characteristics and features of an item or situation. For instance, " <b>Describe</b> the audit procedures to verify ..." requires you to <b>state</b> the specific audit procedure/s that you would use without going into step-by-step <b>detail</b> of how to perform that procedure.
<b>Discuss</b>	<p><b>Discuss</b> requires you to provide the for and against arguments, you cannot have a discussion without opposing views otherwise it would be just a conversation. If <b>discuss</b> is placed near the front of the instruction, then it requires you to provide an answer that is similar to <b>explain</b>, but addresses both the for and against arguments. For instance, "<b>Discuss</b> why numerical valuation is essential when buying or selling a small business".</p> <p>However, if there is a statement and <b>discuss</b> is placed at the end, your answer <u>must be</u> in the form of <u>an essay</u> with the following elements:</p> <ul style="list-style-type: none"> <li>• An introduction, which declares whether you agree, disagree, partly agree, or partly disagree with the statement;</li> <li>• The body of your answer, stating: i) Why it is possible to agree <u>and</u> ii) why it is possible to disagree with the statement. You should provide examples to support both points of view; and</li> <li>• A conclusion that proves your original position.</li> </ul> <p>An example of a <b>discuss</b> question that requires an essay style answer would be "Numerical valuation is not essential when buying or selling a small business because the actual selling price is the outcome of negotiation. <b>Discuss</b>".</p>
<b>Explain</b>	<b>Explain</b> requires you to write at least several sentences conveying how you have analysed the information in a way that a layperson can easily understand the concept or grasp the technical issue at hand.
<b>Identify</b>	<b>Identify</b> is similar to <b>list</b> , but requires you to also provide an <b>explanation</b> as to why the item/s that you have <b>identified</b> is/are relevant to the facts given in the question.
<b>Propose/ Provide</b>	Put forward (for example, a point of view, idea, argument, alternatives, etc.) for consideration or action. For instance, "Based

Verb	Description
	on the facts of the case, <b>propose</b> the most tax-effective entity type ...”, or “ <b>Propose</b> audit adjusting entries to correct ...”.
<b>Recommend</b>	Make a statement about the most appropriate course of action. If there is more than one possible course of action, <b>state</b> which action you would choose and why ( <b>justify</b> your choice). Your professional judgment and your ability to <b>interpret</b> the wider situation are critical to scoring well in these types of questions. Don't forget to think about the future and the past, not just the present when making a <b>recommendation</b> .