

Singapore CA Qualification (Foundation) Examination

9 December 2021

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-THREE (23)** 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 SAC's regulations. Please note that 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 Singapore Accountancy Commission.

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 6100 0516

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

Question 1 – (a), (b), (c) and (d)

Good Gift Pte Ltd (GG) is a company that sells gifts such as flowers and hampers. You are assigned to audit the purchases and payable system of GG. You have extracted the narrative note on GG's purchases and payable system from the permanent audit file. The first task you are required to do is to ensure that the narrative note written up last year is still relevant for this year, i.e. it is updated.

**e-Exam
Question
Number**

2

Question 1 required:

- (a)** Describe THREE procedures you can perform to find out whether there are changes in the purchases and payable system that require you to update the narrative note.

(6 marks)

The narrative note description is as follows:

At the beginning of each financial year, the management provides a list of approved suppliers to the purchasing department and the accounting department. Purchasing staff can only place orders with suppliers on the approved suppliers list. The accounts payable supervisor will update the approved supplier details in the supplier master file. Access to the supplier master file is protected by a password which is held by the accounts payable supervisor. When details in the master file are edited, a change report is automatically emailed to the accountant for review. The accountant will compare the change report to the new approved suppliers list to ensure that the changes are made correctly. He will sign on the change report as evidence that he has reviewed the changes and the changes are in order. When purchasing staff use the purchasing system to raise a purchase order, the system will reject the entry if the supplier keyed in is not in the master file. Similarly, when accounts payable staff key in supplier invoices, the invoices will be rejected by the system if the supplier name is not in the master file.

Purchasing staff can only raise purchase orders if there are approved purchase requisitions signed by the department heads of the departments requesting the purchases. For purchase orders (PO) above \$5,000, the purchasing staff must obtain quotations from two different approved suppliers. Justification must be provided if the orders are not placed with the cheaper quotes. PO up to \$5,000 are to be approved by the purchasing manager. PO above \$5,000 to \$10,000 are to be approved by the purchasing director. PO above \$10,000 are to be approved by both the purchasing director and the managing director. Approvals are evidenced by their signatures on the PO. A copy of the approved PO is forwarded to the accounting department daily. The accounts payable staff file the approved PO in the sequence of running PO number.

The warehouse staff verifies supplier delivery against the approved PO online. If there is no approved PO, the delivery will not be accepted. The warehouse staff updates the PO with the receipt of inventory and the system produces a daily Receiving Report (RR) with the following details:

- RR number (a sequential number)
- Date of receipt
- PO number
- Supplier delivery note number
- Product description
- Quantity received

Warehouse staff write the RR number on the supplier delivery notes which are then forwarded to the accounts payable staff. Upon receipt, the accounts payable staff match the supplier delivery notes to the PO and file the delivery note with the PO in a matched PO file. When supplier invoices arrive, accounts payable staff match the supplier invoices with the PO and supplier delivery notes. For the matched supplier invoices, details are keyed into the trade payable ledger. For the supplier invoices that are not successfully matched, e.g., due to wrong prices or quantity in the supplier invoices, accounts payable staff will raise the issue with suppliers. These invoices are filed in a disputed invoice file. Once resolved, the supplier invoices will then be keyed into the trade payable ledger.

**e-Exam
Question
Number**

3

Question 1 required:

- (b)** For each of the following internal controls in the purchases and payable system, describe the test of controls you would perform to verify whether the internal control is operating effectively:
- i.** At the beginning of each financial year, the management provides a list of approved suppliers to the purchasing department.
 - ii.** Orders can only be placed with suppliers in the approved suppliers list.
 - iii.** The master file can only be accessed using the password held by the accounts payable supervisor.
 - iv.** When details in the master file are edited, a change report is automatically emailed to the accountant for review.
 - v.** When purchasing staff use the purchasing system to raise a purchase order, the system will reject the entry if the supplier keyed in is not in the master file.
 - vi.** Purchasing staff can only raise purchase orders if there are approved purchase requisitions signed by the department heads.
 - vii.** For purchase orders (PO) above \$5,000, the purchasing staff must obtain quotations from two different approved suppliers.

- viii. PO up to \$5,000 are to be approved by the purchasing manager. PO above \$5,000 to \$10,000 are to be approved by the purchasing director. PO above \$10,000 are to be approved by both the purchasing director and the managing director.
- ix. The warehouse staff verifies supplier delivery against the approved PO online. If there is no approved PO, the delivery will not be accepted.
- x. The accounts payable staff match the supplier delivery notes to the PO and subsequently match the supplier invoices with the PO and supplier delivery notes.

(10 marks)

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- (c)** Based on the above information, identify and explain the TWO most significant risks of material misstatement relating to trade payable. Your answer should include which assertion is affected. For each risk of material misstatement, describe a test of details of transactions to address it. You should present answer as follows:

Risk of material misstatement 1 - Assertion affected - Test of details of transactions -
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(6 marks)

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- (d)** Explain why the auditor performs the test of controls. (Your answer should include implications on substantive procedures and the efficiency of audit.)

(3 marks)

(Total: 25 marks)

Question 2 – (a), (b), (c), (d) and (e)

Youbike & Co is a seller of electric bicycles (e-bikes). It has one physical retail store cum warehouse and also sells its products online. Youbike sells twenty-eight different models of e-bikes and other accessories such as safety lights, helmets, mobile phone holders for bikes and gloves. Its financial year will end on 31 December 20x1. You are an audit assistant assigned to audit the inventory account. You accompanied your audit manager and attended a planning meeting with Youbike's Finance Manager on the upcoming stock count. This is how the Finance Manager plans to conduct the stock count:

- Youbike plans to conduct a full stock count on 28 December 20x1. The company is having year-end celebrations on 31 December.
- The store cum warehouse will close on the morning of 28 December 20x1 for the stock count. It will re-open at 1 pm.
- Stock count time schedule:
 - 9 am to 9.15 am – Briefing of stock count by count supervisor who is the manager in charge of the store and warehouse. During the briefing, stock count sheets will be handed out to the count team members, i.e. counters.
 - 9.15 am to 11.30 am – Stock count.
 - 11.30 am to 11.45 am – Stock count to be completed and counters to return stock count sheets to count supervisor who will review the stock count sheets to ensure all are recorded.
 - 11.45 am to 12 noon – External auditor team arrives and performs test counts.
 - 12 noon – 1 pm – Lunch break.
 - 1 pm – Store opens.

- There will be no scheduled break during the stock count. Counters will be advised to:
 - Minimise toilet break and tea break so stock count can finish on time.
 - Remember which items were counted when taking a break and resume from where it stopped.
 - Count the items again if interrupted during the count or they have doubt about the quantity counted.

- Counters:
 - Alan – Warehouse staff (receiving, storing of goods from suppliers).
 - Berry – Delivery van driver (helps out in warehouse for packing work when not out for delivery).
 - Charlie – Assembler and quality inspector (assembles e-bike components from suppliers into the e-bikes, performs quality inspection on components received and tests assembled e-bikes).
 - Damien – Handyman (assists Charlie in e-bike assembly, helps out in storage of goods and disposal of packaging waste).
 - Edmund – Clerk (maintains inventory documents such as goods delivery notes from suppliers, keys inventory movement details (in and out) into inventory system).

These staff are selected as counters because they work in the warehouse and are very familiar with the inventories.

- The count team is larger than last year's team by one counter. This is because the quantity of inventory is about 150% higher than last year due to the fast-expanding business. As each counter counts their allocated items in the stock count sheets, efficiency will be achieved to complete the count in time.
- The time allocated is the same as the previous year as the closure of the store for stock count should be as short as possible to minimise disruption to operations.
- The stock count sheets will be printed from the inventory system with the following details:
 - Page number – 1, 2, 3
 - Inventory code – B123, H001, G01, etc.
 - Inventory description – bike 123, helmet 1, glove 1, etc.
 - Quantity per inventory record – 867, 230, 500,
 - Quantity counted – to be filled in by counters
- The meeting ended with the audit manager agreeing to revert with suggestions to improve the stock count arrangements.

**e-Exam
Question
Number**

Question 2 required:

- 6** **(a)** State the two most important audit procedures to be performed when the auditor attends the year-end stock count and explain the objectives of these two audit procedures. Your answer does not need to include the detailed steps of the audit procedures. **(4 marks)**
- 7** **(b)** Evaluate the implications of performing the stock count on 28 December 20x1 instead of 31 December 20x1. Your answer should include why 31 December may be a more appropriate date. **(4 marks)**
- 8** **(c)** Evaluate the composition of the count team for the purpose of the stock count, i.e. the counters, and recommend ONE change to the composition. **(3 marks)**

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(d) Explain the deficiencies in the following and suggest improvements to their design and/or operation:

i. Stock count sheets (3 marks)

ii. Time schedule for the counters (3 marks)

iii. Time schedule for the external audit team (4 marks)

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(e) Describe TWO tests of details the auditor should perform when attending the year-end stock count. Your answer should include the assertion to be verified by the test of details.

(4 marks)

(Total: 25 marks)

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

Crazy Horses (CH) operates a chain of pubs selling liquor and food. The accounting department consists of a Finance Manager (FM) and two accounting assistants (AA). CH is run by a sole Director who is also a major shareholder. The financial year end of CH is 31 December.

CH pubs sell on cash terms. The highest cash takings in a week would be on Wednesday evening and Saturday evening. The FM will go to each pub on Thursday morning and Monday morning to collect the cash from sales to be deposited into the bank account. The FM will pass the cash sales printout from the point-of-sales systems at each pub to AA1 to record in the cash book. The bank validated deposit slips are filed by the FM. AA2 maintains the general ledger.

AA2 prepares payment vouchers and will attach the corresponding purchase orders, supplier delivery notes and supplier invoices for the FM to approve the payment. The FM prepares the cheques for the Director to sign for payment. AA1 then updates the cash book with the payment.

Every month, the FM will prepare a bank reconciliation to explain the differences between the balance in the cash book and the balance in the bank statement. The bank reconciliations are shown to the Director. The following table shows the bank reconciliations for the three months before year end:

	Sep 20x1 \$	Oct 20x1 \$	Nov 20x1 \$
(1) Balance per bank statement	243,987.00	199,820.40	183,121.50
(2) Less: cheque payments recorded in cash book not yet shown in bank statement	(180,290.47)	(190,132.50)	(179,347.20)
(3) Add: cash sales deposit		68,240.00	99,370.00
(4) Balance per cash book	63,696.53	77,927.90	103,144.30
	(5)	(5)	(5)

**e-Exam
Question
Number**

Question 3 required:

11

- (a)** For each of the items indicated as (1), (2) and (4) above, state ONE audit procedure to be performed and explain the purpose of the procedure.

Present your answer as in the following example:

Item 5

- Audit procedure – cast the bank reconciliation
- Purpose – to ensure arithmetic accuracy, i.e. there is no arithmetic error in the bank reconciliation

(6 marks)

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- (b)** For item (3) – Cash sales deposit:

- i. Explain why it is unusual to see this item in the bank reconciliation. **(2 marks)**
- ii. Given that the FM indicated that this item is likely to be in the December 20x1 bank reconciliation, state the audit procedure you would perform on 31 December 20x1, Friday. Explain the purpose of your audit procedure.

(2 marks)

The Human Resource Manager (HRM) was informed by the bank that there was insufficient cash in the bank to process the payroll cash transfer to employees in December 20x1. The HRM was surprised as there should be sufficient cash in the bank account according to the FM. Subsequent investigation by the HRM revealed that the balances in the cash book for October, November and December were overstated. The FM had misappropriated some of the cash collected from the pubs prior to depositing the balance in the bank account.

The Director, a professional accountant (a member of a professional accountancy association) who reviewed the monthly bank reconciliation admitted he did only a cursory glance of the bank reconciliation because he trusted the FM.

**e-Exam
Question
Number**

Question 3 required:

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(c) Explain the ethical principle that the Director has breached in the context of his review of the bank reconciliation and explain the ethical threat that may have affected the Director.

(4 marks)

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(d) Identify two control deficiencies that allowed the FM to conceal the misappropriation of cash collected from the pubs and recommend a control improvement for each deficiency.

(8 marks)

SSA 265 - Communicating Deficiencies in Internal Control to those Charged with Governance and Management requires the auditor to communicate significant control deficiencies to those charged with governance on a timely basis.

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Question 3 required:

(e) Describe the benefits if the auditor had communicated the above significant control deficiencies to the Director when the auditor reviewed the bank reconciliations during the interim audit in early December 20x1. Your answer should include the benefits to:

i. CH (2 marks)

ii. The audit firm (1 mark)

(Total: 25 marks)

Question 4 – (a), (b), (c), (d) and (e)

You are an intern assigned to audit the financial statements of Lowlux Pte Ltd (Lowlux) for the year ended 30 November 20x1. Your audit senior has provided you with the following figures as part of the analysis of Lowlux's going concern:

	20x1 \$'000	20x0 \$'000	20w9 \$'000
Revenue	353,629	445,241	535,790
Cost of sales	(215,335)	(267,145)	(321,070)
<u>Current assets:</u>			
Inventory	48,999	62,334	49,030
Trade receivables	124,155	117,940	92,870
Cash	314,168	313,706	243,945
<u>Current liabilities:</u>			
Trade payables	149,531	68,664	53,181
Loan payable	352,462	304,927	128,999
Non-current loan payable	1,173,195	764,297	337,980
Equity	1,007,562	1,312,028	886,292

**e-Exam
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Question 4 required:

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(a) Using the financial information provided above, calculate the following accounting ratios for 20x1 and 20x0:

i. Trade receivable collection days **(1 mark)**

ii. Trade payable payment days **(1 mark)**

iii. Quick ratio **(1 mark)**

iv. Gearing ratio **(1 mark)**

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(b) Using the financial information provided above and the ratios calculated, identify and explain FIVE indicators that suggest Lowlux may be facing significant going concern uncertainty.

(10 marks)

The Managing Director of Lowlux believes the company is not facing significant going concern uncertainty because revenue for 20x2 is forecast to grow by 10% and the company will be able to generate enough cash to pay the liabilities due. The Managing Director also mentioned that he is confident that the bank will continue to extend credit facilities to support the company.

Your audit senior has asked you to consider the representation of the Managing Director using the following financial figures:

	20x1 \$'000	20x0 \$'000	20w9 \$'000
Cash (used in) generated from operating activities	(214,123)	(43,691)	(266,133)

**e-Exam
Question
Number**

Question 4 required:

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(c) Evaluate the reasonableness of the assumption that the company will be able to generate enough cash from operating activities in 20x2 to pay the liabilities. **(3 marks)**

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(d) Describe ONE audit procedure to verify whether the statement that the bank will continue to support Lowlux is valid. **(2 marks)**

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(e) Describe the implications on the auditor's report if the material going concern uncertainty:

i. Is adequately disclosed in the financial statements.

(3 marks)

ii. Is not adequately disclosed in the financial statements.

(3 marks)

(Total: 25 marks)

END OF PAPER

Appendix A – Common verbs used by the Examiners

Verb	Description
Calculate / Compute	Do the number crunching and derive the correct answer. Make sure that you write down your workings and crosscheck your numbers. Candidates often underperform because of careless mistakes.
Describe	Describe requires you to provide the characteristics and features of an item or situation. For instance, “ Describe the audit procedures to verify ...” requires you to state the specific audit procedure/s that you would use without going into step-by-step detail of how to perform that procedure.
Evaluate	Pass judgment on or provide your opinion based on the facts at hand. When making an evaluation , there are often predetermined criteria that you will use to base your opinion on. The key here is to give your opinion or make a judgment of the facts, but providing just a description of the facts is insufficient. Professional judgment and scepticism (a questioning mind) are called for when making an evaluation . Examine and Evaluate have similarities.
Explain	Explain 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.
Identify	Identify is similar to list , but requires you to also provide an explanation as to why the item/s that you have identified is/are relevant to the facts given in the question.
State	State is similar to list , but the items require your professional judgement. For instance, “ State any restrictions that apply”. One of the easiest ways to make sure that you state comprehensively is to think, “ list and justify ”. You will note that state appears in many of the verb descriptions given.