

Singapore CA Qualification Examination

6 December 2022

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 and B). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is an open book examination. 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.
4. 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.
5. This examination paper and all video recordings of this examination are the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

6. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
7. 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 as at 1 January 2022.

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.

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****VERY IMPORTANT NOTICE****

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1. Your question paper is attached under the "**Resources**" tab found at the bottom right of **EACH** question.
2. You may also download the question paper that allows annotation throughout your exam in Question 1 of the e-Exam portal.
3. Please download the relevant required Appendices in Question 1 of the e-Exam portal.

Other important information:

4. You will be allowed to access your reference materials but **will not be allowed** to communicate with anyone either physically or through any electronic means.
5. You are **NOT ALLOWED** to access any websites during the exam.
6. You are **NOT ALLOWED** to print the question paper.
7. **Please take note that your screen will be monitored throughout the examination. If you are found to have accessed any 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

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

Question 1 – (a), (b), (c) and (d)

Soapy Pte Ltd (Soapy) is a new company that started operations on 1 December 2021. Its financial year end is 30 November 2022. Soapy buys and sells bathroom and kitchen cleaning products such as dish brush, sponges, soap dispensers, etc. Soapy distributes its products to retailers, renovation contractors, interior designers, and property developers.

You are the audit senior assigned by your firm to be responsible for the audit of inventory costs. The audit strategy requires data analytics to be applied to examine inventory cost data. This is because the company implemented an inventory system, based on a standalone inventory package supplied by an external vendor. The system went live on 1 November 2022.

During the planning meeting with the accountant of Soapy, you found that the company's accounting policy is to value inventory using the First-In-First-Out method. As the inventories are imported from overseas, the cost of inventories includes purchase price (payable in Singapore dollar) and shipping cost. You have obtained an Inventory Movement file for a particular product with a product code 1314 for the month of November 2022 (see Appendix A) to perform a trial of your data analytics. An associated Sales Invoices file for this product for the month of November 2022 (see Appendix B) is also provided to you.

Appendix A

Product 1314 – Inventory Movement for the month of November 2022

S/N	Date	Opening Quantity	Opening Value (\$)	Quantity In	Doc Ref	Quantity Out	Doc Ref	Closing Quantity	Purchase Cost in (\$)	Shipping Cost in (\$)	Cost Out (\$)	Closing Value (\$)
1	1-Nov	0	0	1,000	GRN 111	0		1,000	9,000	1,000	0	10,000
2	2-Nov	1,000	10,000	0		100	GDN 222	900	0	0	1,000	9,000
3	3-Nov	900	9,000	1,000	GRN 117	0		1,900	9,057	1,000	0	19,057
4	4-Nov	1,900	19,057	0		200	GDN 225	1,700	0	0	2,006	17,051
5	7-Nov	1,700	17,051	1,000	GRN 119	0		2,700	9,409	0	0	26,460
6	8-Nov	2,700	26,460	0		600	GDN 231	2,100	0	0	5,880	20,580
7	9-Nov	2,100	20,580	0		800	GDN 233	1,300	0	0	7,840	12,740
8	10-Nov	1,300	12,740	1,000	GRN 131	0		2,300	9,030	1,000	0	22,770
9	18-Nov	2,300	22,770	1,000	GRN 132	0		3,300	9,455	1,105	0	33,330
10	22-Nov	3,300	33,330	0		1,100	GDN 237	2,200	0	0	11,110	22,220
11	28-Nov	2,200	22,220	1,000	GRN 136	0		3,200	9,000	1,100	0	32,320
12	29-Nov	3,200	32,320	0		50	GDN 238	3,150	0	0	505	31,815
13	30-Nov	3,150	31,815	0		200	GDN 239	2,950	0	0	2,020	29,795

Appendix B

Sales Invoices for Product 1314 for the month of November 2022

Sales Invoice No.	GDN No.	Invoice Date	Invoice Value (\$)	GST 7%	Gross Value (\$)
1008	222	3-Nov	1,100.00	77.00	1,177.00
1010	225	5-Nov	2,100.00	147.00	2,247.00
1022	233	7-Nov	8,000.00	560.00	8,560.00
1038	237	24-Nov	11,110.00	777.70	11,887.70
1043	238	30-Nov	250.00	17.50	267.50
1044	239	30-Nov	1,800.00	126.00	1,926.00

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Question 1 required:

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- (a)** Perform an analysis of Appendix A and Appendix B and identify **FIVE** transactions that you would consider for further investigation. **(15 marks)**

Note 1: Your answer should include:

- Why these transactions should be further investigated
- What information you hope to find out from the investigation and
- The implications on the financial statements

Note 2: Transactions with the same issue are considered together as one transaction.

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- (b)(i)** Determine the correct cost of product 1314 included in the inventory balance at year end in accordance with Soapy's accounting policies. **(2 marks)**

- (b)(ii)** State the journal entries to correct the misstatement in the cost of product 1314 at year end based on your calculation in **part (b)(i)** above. **(3 marks)**

In your discussion with the accountant, you were informed that under the contract with the supplier for product 1314, a rebate of \$0.50 per unit will be given if the quantity purchased for the month exceeds 5,000 units. This arrangement started from 1 November 2022 and the accountant is very confident that the monthly rebate will be earned as the company forecast to buy at least 6,000 units per month. The accountant said the rebate will be accounted for as other income when it is given by the supplier.

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Question 1 required:

- 4** **(c)** Explain to the accountant how the rebate in November should be accounted for. **(2 marks)**
- 5** **(d)** Quantify the rebate earned in November and show the accountant the accounting entries to record the rebate earned in November. **(3 marks)**
- (Total: 25 marks)**

Question 2 – (a), (b), (c) and (d)

Jimmy Chin is an audit partner of Reasonable Assurance LLP. Jimmy is the audit engagement partner of three entities: Alpha Pte Ltd (Alpha), Omega Pte Ltd (Omega) and Octo Pte Ltd (Octo).

Alpha and Omega

Alpha and Omega are unrelated except that Alpha is a supplier to Omega. Both entities have the same financial year end of 31 December 2022. Jimmy has audited Alpha for the past four years and Jimmy is auditing Omega for the first time, having taken over from the previous audit engagement partner who is retiring from the firm. Except for Jimmy, the two engagement teams are made up of different members.

While performing the planning for both the audit engagements, Jimmy discovered that Alpha and Omega are involved in a legal dispute. Omega has filed a legal claim on 28 November 2022 against Alpha for supplying equipment that did not meet its specifications. Not only did Omega refuse to pay Alpha for the equipment, Omega had also made a legal claim for damages to production machines due to the use of the defective equipment supplied by Alpha. The amount claimed by Omega was \$2.8 million. Alpha has responded to Omega through its legal advisor that Alpha will defend the legal claim rigorously and categorically denied the equipment supplied was defective. While attempting to recover the full receivable from Omega, Alpha has recognised full impairment loss on the receivables as allowance for expected credit loss. The Management of Alpha and Omega met on 28 December 2022 to discuss a possible out-of-court settlement.

Jimmy believes he is facing a conflict of interest based on the above information. He is the audit engagement partner of both audit engagements and will have access to information from both Alpha and Omega, such as legal advice and Management intentions, in relation to the legal dispute between them.

He decided to seek advice from a senior partner about it.

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Question 2 required:

- (a)** Explain the ethical threat arising from Jimmy being the audit engagement partner of both audit engagements and recommend **TWO** appropriate actions that Reasonable Assurance LLP should take to address it.

Note: Your answer should include:

- An explanation of the ethical threat identified
(2 marks)

- A discussion of whether it is appropriate for Jimmy to use information obtained from Alpha's audit engagement to evaluate the implications of the legal claim on the financial statements of Omega, and vice versa
(2 marks)

- A description of **TWO** appropriate actions that Reasonable Assurance LLP should take
(2 marks)

Both engagements have now progressed to the finalisation stage and the audit reports are due to be issued in 3 weeks' time on the first week of May 2023 when the Directors of Alpha and Omega authorise the respective financial statements for issue. The legal proceeding is still in progress, and it is unlikely the court will make a decision within the next one month. Alpha has disclosed the legal claim from Omega as a contingent liability in the draft disclosure note. Omega has recorded the \$2.8 million claim against Alpha as other receivables. The draft written representation letter from Alpha states that the Management is willing to settle the case with Omega as Omega has sent a legal letter dated 1 April 2023 offering a reduced amount of \$800,000 to settle the legal claim. A meeting between the Management of Alpha and Omega is scheduled on 28 April 2023, before the audit is completed for both entities. The purpose of the meeting is to sign the final out-of-court settlement agreement.

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Question 2 required:

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(b) Given the latest development of a possible out-of-court settlement:

(i) Discuss whether the legal claim is appropriately accounted for or reflected in the financial statements of Alpha and Omega. **(6 marks)**

Note: Your answer should include a discussion of appropriate amendments where applicable.

(ii) Describe **THREE** audit procedures to be performed by the audit engagement team for Alpha in relation to this latest development. **(3 marks)**

Octo

Octo is a supplier of noodles. Octo's financial year end is 30 November 2022.

Octo has two types of customers, all based in Singapore:

- Food and beverage (F&B) operators, such as restaurants and cafes and
- Retailers, such as supermarkets, convenience stores and provision shops

Octo sells on credit to both types of customers, with a standard credit term of 30 days.

In accounting for the allowance for expected credit loss (ECL) for trade receivables, Octo uses ONE provision matrix for all customers as follows:

Year-end	Receivables	Current	30-60 days	60-90 days	After 90 days
Receivable (1)	14,000,000	5,000,000	4,000,000	3,000,000	2,000,000
ECL Rate (2)		4%	4.4%	8%	22.22%
ECL (1) x (2)	1,060,400	200,000	176,000	240,000	444,400

The total expected credit loss estimated for the financial year ended 30 November 2022 was \$1,060,400 [\$200,000 + \$176,000 + \$240,000 + \$444,400] and Management has made the following accounting entries to recognise the related expense:

Dr expense \$1,060,400
 Cr allowance for ECL \$1,060,400

The expected credit loss rates are based on actual loss and collection patterns 2 years ago, before the COVID-19 pandemic occurred.

While reviewing the receivable aging for the current year, it is noticed that the cash collection from the retailers is similar to prior years. However, it is obvious that Octo is taking much longer to collect cash from the F&B operators. Some of these F&B operators were reported in the news to be closing down.

The Finance Director and Sales Director of Octo believe that the main driver in cash collection from customers to a large extent will improve when the government starts to relax the COVID-19 restrictions. These restrictions affected the F&B operators more than the retailers. Both the Finance Director and the Sales Director anticipate a possibility of limited relaxation of the restriction in the near future. The sooner the relaxation, the better the business of Octo's customers. Collection of cash from the F&B operators should improve.

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Question 2 required:

- | | |
|----------|---|
| 8 | <p>(c) In relation to the different collection patterns from the F&B operators and the retailers:</p> <p>(i) Suggest a business reason, based on the information given in the case, that could explain the difference.
(2 marks)</p> <p>(ii) Identify and explain a risk of misstatement in relation to trade receivables.
(2 marks)</p> |
| 9 | <p>(d) In relation to the use of the provision matrix in developing an estimated ECL for trade receivables, suggest THREE changes that Octo should consider in improving the estimated ECL.
(6 marks)</p> <p>(Total: 25 marks)</p> |

Question 3 – (a) and (b)

Redstore Pte Ltd (Redstore) is a self-storage space provider. It has four premises in Singapore where it rents different sizes of storage spaces to customers for self-storage. The rental period is renewable on a monthly basis and the minimum rental period is one month. Redstore's financial year end is 31 October 2022.

You are an audit senior from ABD LLP, an audit firm. It is 18 September 2022 and you have obtained the draft financial figures from Redstore for the purpose of planning the audit. The draft figures are made up of actual financial figures from 1 November 2021 to 31 August 2022 and forecast figures from 1 September 2022 to 31 October 2022.

When reviewing the draft financial figures, you noticed the following asset balances as at 31 October 2022 which have NIL balances in the prior year's audited financial statements:

- Intangible assets – \$210,000
- Prepayment – \$88,000
- Non-current assets held for sale – \$98,000

The following information was provided to you when you discussed the above accounts with Redstore's Finance Manager:

1) The intangible assets related to the cost of switching from using an in-house accounting software to cloud-based accounting software provided by an external provider Cloud Accounting (CA). The detailed breakdown of the \$210,000 shows the following four components:

- Data cleansing and transfer – \$10,000
- Training for employees – \$10,000
- Configuration of the CA software, i.e. setting of flags and switches and setting of the parameters of the software – \$90,000. (Redstore has the rights to access and use the software but does not have control over other matters such as nature and timing of software updates.)

- Development of the interface between the various ERP tools and reporting capabilities (these are developed by Redstore on its own; bespoke to Redstore and Redstore controls this software) – \$100,000.

According to the latest project schedule, the switchover from the existing accounting system to the cloud-based accounting system will occur on 1 January 2023.

2) There are three prepayments:

- \$30,000 paid to Mediacorp on 1 August 2022 for radio advertising from 1 August 2022 to 31 January 2023.
- \$24,000 paid to Cleaning Service on 1 May 2022 for the cleaning of office premises from 1 May 2022 to 30 April 2023.
- \$34,000 paid to Co-Work, a co-working space provider, on 1 May 2022 for the rental of office space from 1 May 2022 to 30 April 2023. The Finance Manager of Redstore stated that it has elected to apply the practical expedient for short-term lease exemption in FRS 116 *Leases*.

3) Non-current assets held for sale:

- These relate to the current accounting system, including software, hardware, printers and other accessories which will be replaced by the new cloud-based accounting system. Redstore has started advertising on local newspapers and online media to sell all of the equipment as a bundle. The equipment will only be handed to the eventual buyer when Redstore successfully switched over to the new system.

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Question 3 required:

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(a) Describe the risks of misstatement in relation to:

(i) The intangible assets **(8 marks)**

Note: Your answer should consider whether each of the four components met the criteria to be capitalised as intangible assets, i.e. data cleansing, training, configuration of the software, development of the interface.

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(ii) Each of the **THREE** prepayments **(6 marks)**

(iii) The non-current assets held for sale **(4 marks)**

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(b) Design audit procedures to verify the nature and period of the transactions (or services) involved and the prepaid amount in relation to the three payments:

(i) Radio advertising – **TWO** audit procedures **(2 marks)**

(ii) Cleaning service – **TWO** audit procedures **(2 marks)**

(iii) Office rental – **THREE** audit procedures **(3 marks)**

Note: Your answer should not include reviewing the cash book and bank statement to confirm the amount paid.

(Total: 25 marks)

Question 4 – (a), (b) and (c)

Medihelp Pte Ltd (Medihelp) is a medical facilities provider which rents out its clinical rooms, laboratories, surgery theatres, X-ray rooms, physiotherapy treatment rooms and pharmaceutical storerooms to individual medical doctors and small medical practises.

You are the audit senior of AA Assurance LLP, an audit firm, and you are assigned to audit Medihelp's financial statements for the year ended 30 September 2022. The audit is nearing its completion.

Medihelp's business suffered significantly due to the COVID-19 restriction measures imposed by the government. Doctors and medical practices shortened their leases with Medihelp and bookings for the use of X-ray rooms, surgical theatres and other medical facilities have decreased significantly.

The draft financial statements for the year ended 30 September 2022 show Medihelp's current liabilities exceeded its current assets by \$9 million. In addition, Medihelp incurred a net loss of \$3 million and a net operating cash outflow of \$11 million for the financial year then ended.

Management shared with you a 15-month cash flow forecast from 1 October 2022 (Cash Flow Forecast) which shows that Medihelp has funds to meet its obligations and working capital and capital commitment needs. In preparing the Cash Flow Forecast, Management has taken the following actions into consideration:

- (i) New capital of \$14 million to be raised via private share placements
- (ii) Private issuance of convertible loans of \$6 million
- (iii) Ongoing negotiations for the settlement of overdue rentals of \$3 million related to a commercial lease in Singapore

According to the Management, all the three actions are already in progress and are in advanced stage of negotiations. The Directors and Management are confident that the

Cash Flow Forecast is achievable and will allow the Group to fulfil its obligations as and when they fall due.

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Question 4 required:

- (a) For each of the THREE actions above, describe **THREE** audit procedures to be performed to verify they are in advanced stage of negotiations as represented by the Management.

(9 marks)

Note: Your answer should not include obtaining evidence relating to Boards' approval or Shareholders' approval.

It is now 28 January 2023. The Board of Directors will be reviewing and approving the financial statements for issue in a week's time. The disclosure notes include a disclosure of material going concern uncertainty due to the factors described above.

The financial statements are prepared using the going concern basis. The draft audit report includes an unmodified opinion and a "Material Uncertainty Related to Going Concern" [MUGC] section. The Board of Directors informed the audit engagement partner that all the three actions have been completed satisfactorily. Contracts have been signed for private share placements, private issuance of convertible loans and deferral of overdue rentals. Cash from the shares issue and convertible loans will be received in two days' time. The Management has revised the disclosure note with the updated information as follows:

"Basis for Preparation

The financial statements are prepared using a going concern basis.

As at 30 September 2022, the company's current liabilities exceeded its current assets by \$9 million. In addition, the company incurred a net loss of \$3 million and a net operating cash outflow of \$11 million for the financial year then ended. Management has taken the following measures, known as the "Recovery Measures", to ensure the adequacy of funds required to meet its obligations, working capital and capital commitment needs:

- (i) New capital to be raised via private share placements of \$14 million
- (ii) Private issuance of convertible loans of \$6 million
- (iii) Ongoing negotiations for the settlement of overdue rentals of \$3 million related to a commercial lease in Singapore

By 28 January 2023, the above actions are satisfactorily completed. The shares were issued to a private equity fund. The convertible loans were fully subscribed by one sovereign investment fund. The landlord agreed to defer the collection of rentals for 12 months. On 31 January 2023, cash from the new shares and convertible loans were received. Therefore, the Directors and Management are confident that the company is a going concern and there is no material going concern uncertainty."

The revised cash flow forecast to 30 September 2023, after taking into account the effects of the Recovery Measures, showed an average of cash balance of \$20,000 per month. Your Audit Manager wrote a comment in the working paper that the cash flow headroom is very limited.

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Question 4 required:

(b) For each of the THREE actions, describe the audit procedures to be performed to confirm the THREE actions were satisfactorily completed:

(i) THREE audit procedures for the share issues
(3 marks)

(ii) THREE audit procedures for the convertible loans
(3 marks)

(iii) TWO audit procedures for the deferral of rent payment
(2 marks)

The above audit procedures were duly completed, and the evidence obtained confirmed Management's actions were indeed satisfactorily completed. The evidence supports the conclusion that there is no material uncertainty affecting the company's ability to continue as a going concern.

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Question 4 required:

(c) Discuss whether the draft audit report, which contained an unmodified opinion and a MUGC section, should be revised.

Note: Your answer should include a discussion of:

- Any changes to the audit opinion to be issued
(2 marks)

 - Any changes to the MUGC section
(2 marks)

 - Whether an Emphasis of Matter section should be added
(4 marks)
- (Total: 25 marks)**

END OF PAPER