

Singapore CA Qualification Examination

7 June 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). 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) and (b)

XBX is a small private transport company. It started its operations in 2018 with just one long distance coach and grew its fleet to four coaches in 2020. XBX provides its coaches to corporate customers on a charter basis. XBX is a new audit client of your firm.

You are the audit senior assigned to audit the financial statements of XBX for the year ended 31 December 2021. According to the audit strategy, data analytics is to be deployed to audit the depreciation of the property, plant and equipment. You have obtained sample records of the Fixed Asset Register of XBX (for the year ended 31 December 2021) in the Microsoft Excel file (Appendix A).

You have reviewed XBX's audited financial statements for the year ended 31 December 2020 and you have ascertained the following information relating to depreciation from the disclosure notes:

- Leasehold buildings are depreciated using a straight-line method over 60 years.
- Computer equipment are depreciated using a straight-line basis over 3 years.
- Long distance coaches are depreciated based on distance travelled in the year with a planned total distance travelled of 300,000 km upon which the long-distance coaches will be replaced.

For fixed assets with significant components, the components are assigned the same asset number, e.g. MV001 or MV002 but each component is assigned a unique asset ID such as 30.1 and 30.2.

Coach drivers are paid a fixed monthly salary. Coach drivers are required to record the mileage travelled for each trip made in a mileage log which is used by the accounting department to compute the total mileage travelled for each month.

During 2021, XBX invested in robotic testing equipment to detect emission problems of the long-distance coaches.

The Finance Manager said to you during the planning meeting that the current year audit should be quite straight forward as the long-distance coaches were not deployed at all due to the lack of booking. The Finance Manager maintains a coach order book that records all the details of customer bookings, including customer name. Audit procedures performed on the order book have confirmed the order book is complete and accurate.

Appendix A – Fixed Asset Register of XBX (for the year ended 31 December 2021)

Fixed Asset Register of XBX (for the year ended 31 December 2021)

Asset number	Asset ID	Description				Asset at Cost				Accumulated depreciation			
			Date of acquisition	Disposal date	Proceeds on disposal \$	Opening balance \$	Additions \$	Disposals \$	Closing balance \$	Opening balance \$	Depreciation \$	Disposals \$	Closing balance \$
LB001	1	Leasehold building	1.1.2018			38,210,000.00	0.00	0.00	38,210,000.00	1,910,500.00	636,833.33	0.00	2,547,333.33
FF001	10	Furniture and fittings	1.1.2018			1,230,000.00	0.00	0.00	1,230,000.00	61,500.00	20,500.00	0.00	82,000.00
MV001	30.1	Long distance coach - body & engine	1.1.2018			700,000.00	0.00	0.00	700,000.00	186,666.67	0.00	0.00	186,666.67
MV001	30.2	Long distance coach - seats	1.1.2018	1.1.2021	0.00	80,000.00	0.00	-80,000.00	0.00	21,333.33	0.00	-21,333.33	0.00
MV001	30.3	Long distance coach - seats	1.1.2021			90,000.00	0.00	0.00	90,000.00	0.00	0.00	0.00	0.00
MV002	40.1	Long distance coach - body & engine	1.7.2018			700,000.00	0.00	0.00	700,000.00	163,333.33	0.00	0.00	163,333.33
MV002	40.2	Long distance coach - seats	1.7.2018	1.7.2021	0.00	80,000.00	0.00	-80,000.00	0.00	18,666.67	0.00	-18,666.67	0.00
MV002	40.3	Long distance coach - seats	1.7.2021			90,000.00	0.00	0.00	90,000.00	0.00	0.00	0.00	0.00
MV003	50.1	Long distance coach - body & engine	1.1.2019			710,000.00	0.00	0.00	710,000.00	42,000.00	0.00	0.00	42,000.00
MV003	50.2	Long distance coach - seats	1.1.2019			85,000.00	0.00	0.00	85,000.00	17,000.00	0.00	0.00	17,000.00
MV004	60.1	Long distance coach - body & engine	1.1.2020			728,000.00	0.00	0.00	728,000.00	72,800.00	0.00	0.00	72,800.00
MV004	60.2	Long distance coach - seats	1.1.2020			88,000.00	0.00	0.00	88,000.00	8,800.00	0.00	0.00	8,800.00
PC001	100	Dell desktops x 4	1.1.2018			12,000.00	0.00	0.00	12,000.00	12,000.00	0.00	0.00	12,000.00
PC002	110	HP Printer x 1	1.1.2018			2,000.00	0.00	0.00	2,000.00	2,000.00	0.00	0.00	2,000.00
PC003	120	Fuji Xerox Copier x 1	1.1.2018			3,000.00	0.00	0.00	3,000.00	3,000.00	1,000.00	0.00	4,000.00
RB001	130	Robot tester	1.1.2021			5,000.00	0.00	0.00	5,000.00	0.00	0.00	0.00	0.00
MS001	999	3-year maintenance service of Fuji Xerox Copier	1.12.2021			1,200.00	0.00	0.00	1,200.00	0.00	400.00	0.00	400.00

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Question 1 required:

2

- (a)** Using the information in Appendix A, identify SEVEN items that you would want to investigate further and explain why you want to investigate them further. **(21 marks)**

Note: You do not need to consider approval of additions and disposals and their source documents at this stage.

3

- (b)** Describe TWO audit procedures to confirm all the four long-distance coaches were not deployed at all during the year. **(4 marks)**

(Total: 25 marks)

Question 2 – (a) and (b)

KOPI Pte Ltd (KOPI) is an investment holding company that holds 60% equity interests in KAYPO Limited (KAYPO). KAYPO is a Singapore-based real estate development company with a portfolio of developments and investments in Singapore as well as the region. KAYPO is listed on the Singapore Exchange (SGX).

Your firm, DEKP LLP is auditing the financial statements of KOPI and the consolidated financial statement of the KOPI Group. Another audit firm, BGR LLP (BGR), is auditing the financial statements of KAYPO.

All the entities have the same financial year end of 31 March 20X2. The group's total assets in the consolidated statement of financial position of KAYPO at 31 March 20X2 is \$198,458,000.

The first few paragraphs of the draft audit report prepared by BGR on the consolidated financial statement of KAYPO is shown below for your review as the KOPI Group Audit Manager:

Independent Auditor's Report

To the Members of KAYPO Limited

Report on the Audit of the Financial Statements

We have audited the financial statements of KAYPO Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the Balance Sheets of the Group and the Company as at 31 March 20X2, the Statements of Changes in Equity of the Group and the Company and the Consolidated Statement of Profit or Loss and Other Comprehensive Income and Consolidated Cash Flow Statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Disclaimer of Opinion

We do not express an opinion on the accompanying financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Opinion on the Consolidated Financial Position and Consolidated Cash Flows of the Group

In our opinion, the accompanying Balance Sheets of the Group and the Company, Consolidated Cash Flows Statement of the Group and the Statement of Changes in Equity of the Company are properly drawn up in accordance with the Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (International) (SFRS(I)s) Act, so as to give a true and fair view of the Consolidated Financial Position of the Group and the Company as at 31 March 20X2.

Basis for Opinion

As disclosed in Note 23 to the financial statements, included in “Other payables” are advances from an individual of an amount of \$30,000,000 in relation to the Group’s acquisition of a property development project “Secret Gardens”. The Group’s Executive Chairman and Chief Operating Officer are relatives of the said individual. Management explained that the intent is for the advances to be interest-free, repayable on demand and free from all liens, charges and other encumbrances.

During the audit, we were provided loan agreements and related documents between the individual and the Group for which the terms of the advances entitle the individual to 11% of profit in “Secret Gardens”. These terms were not consistent with Management’s intent or explanation. We are unable to obtain sufficient and appropriate audit evidence on the arrangement to our satisfaction. As a result, we are unable to determine whether any adjustments were necessary to the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the following key audit matters to communicate in our report.

- Key Audit Matter 1 – Valuation of Properties

As at 31 March 20X2, the Group has significant balances relating to properties in Batam, Indonesia, which comprises of properties under development amounting to \$244,806,000 and leasehold land and buildings amounting to \$51,088,000 classified under Property, Plant and Equipment. To support the carrying value of these assets, the Group engaged an external professional valuer to determine both the net realisable value of the development properties and the recoverable amount of the leasehold land and buildings. The valuation of these properties is significant to our audit.

- Key Audit Matter 2 – Going Concern Uncertainty

As discussed in Note 2.1 to the financial statements, the Group incurred a net loss of \$9,006,000 and negative cash flows from operating activities of \$8,080,000 during the financial year ended 31 March 20X2. Significant Management judgement is involved in assessing the ability of the Group to meet its financial obligations, manage its liquidity position and consequently, the use of the going concern assumption in the preparation of the financial statements.

As such, we determined this to be a key audit matter.

The draft disclosure notes in relation to the going concern assumption mentioned above is as follows:

2.1 Basis of Preparation

The Consolidated Financial Statements of the Group, Balance Sheet and Statement of Changes in Equity of the Company have been prepared in accordance with the Singapore Financial Reporting Standards (SFRS). The financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below. The financial statements are presented in Singapore Dollars (SGD or \$) and all values in the tables are rounded to the nearest thousand (\$'000), except when otherwise indicated.

Going concern assumption

The Group incurred a net loss of \$9,006,000 (20X1: Net profit of \$3,218,000) and negative cash flows from operating activities of \$8,080,000 (20X1: \$14,510,000) during the financial year ended 31 March 20X2. This cast significant doubt on the Group's ability to continue as a going concern. Notwithstanding the above, the Directors are of the view that it is appropriate to prepare these financial statements on a going concern basis due to the following factors:

- The Group has an outstanding loan due to a shareholder amounting to \$18,000,000 as at 31 March 20X2 (Note 27). Subsequent to year end, the Group is negotiating with the shareholder an extension of the repayment term for another year from 29 December 20X2 to 29 December 20X3.
- On 31 May 20X2, the Group entered into a loan deed of \$28,000,000 (Note 28). The loan deed provides the lender an option to convert the loan into shares of a subsidiary of the Group any time till the maturity date by providing a notice in writing, specifying its intention to convert the loan to the subsidiary's shares based on a conversion formula. On 18 June 20X2 the lender has served its notice of conversion to the Group.

- The Directors are confident that the Group will be able to generate sufficient cash flows from operating activities in the next 12 months from the date of the financial statements.

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Question 2 required:

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(a) Using the facts in the case:

- i. Explain whether it is appropriate to have TWO audit opinions in the audit report. **(3 marks)**
- ii. Explain whether it is appropriate to issue a disclaimer of opinion. **(5 marks)**

5

For requirements **(iii), (iv) and (v)**:

- Assume the disclaimer of opinion has been amended to other form of modified opinion.
- Identify and explain deficiencies in the following elements in the extracts of the draft audit report:
 - iii. The Introduction Paragraph of the Key Audit Matters section. **(4 marks)**
 - iv. Key Audit Matter 1 – Valuation of Properties (TWO deficiencies are required). **(4 marks)**
 - v. Key Audit Matter 2 – Going Concern Uncertainty (Your answer should consider how this matter should be addressed in the audit report). **(5 marks)**

You do not need to consider the other sections that are not included in the above extracts, such as the Other Information section, the Management Responsibilities section and the Auditor's Responsibilities section.

The Board of Directors of KAYPO plans to authorise the consolidated financial statements for issue on 28 June 20X2. The auditor of KAYPO, i.e. BGR, is planning to date the written representation from Management on 28 June 20X2 and date the audit report on 27 June 20X2.

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Question 2 required:

6

(b) Evaluate the appropriateness of the proposed dates of written representation and audit report.

(4 marks)

(Total: 25 marks)

Question 3 – (a) to (e)

Greengas Pte Ltd (GPL) is a company that provides technical, operational and procurement services to manufacturers of medical equipment.

Your firm has completed the audit of GPL's financial statements for the year ended 31 December 20X1 and issued an unmodified audit report on 28 March 20X2. The Annual General Meeting (AGM) of GPL was held on 28 April 20X2 and the approved financial statements were filed with the Accounting and Corporate Regulatory Authority (ACRA) on 1 June 20X2.

Shortly after the filing with ACRA, your firm received a notification from GPL that a fraud was uncovered. The details of the fraud are as follows:

GPL has recorded \$800,000 as trade receivables from Rolita & Co. (Rolita) as at 31 December 20X1. The associated credit entry was deferred revenue.

On 2 June 20X2, GPL received a legal letter from the lawyer of Rolita demanding the return of \$800,000 for breach of contract on GPL's part in not supplying the medical gloves ordered.

Rolita alleged that its contract with GPL was signed by Jo Ko (JK), the Chief Executive Officer (CEO) of GPL.

JK was back in his overseas home and was placed on quarantine for COVID-19 observation and was non-contactable since 1 May 20X2.

The Directors of GPL have inspected the contract signed with Rolita and found that it was for the provision of operational services rather than for the delivery of medical gloves. The copy of contract signed by the lawyer of Rolita showed the contract was signed with GPL Pte Ltd and not Greengas Pte Ltd. The contract was signed by JK on behalf of GPL Pte Ltd.

As the \$800,000 receivables from Rolita as at 31 December 20X1 represented 10% of the revenue of GPL for the year ended 31 December 20X1, the Directors of GPL planned to prepare revised financial statements for the year ended 31 December 20X1. The revised financial statements will take into account the adjustments for the effect of the above potential fraud. The Directors plan to authorise the revised financial statements on 31 July 20X2. GPL Directors requested your firm to audit the revised financial statements and provide an audit opinion on the revised financial statements.

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Question 3 required:

7

- (a)** Identify TWO issues from the details of the fraud relating to the \$800,000 receivables from Rolita and evaluate their implications on the financial statements for the year ended 31 December 20X1. **(8 marks)**

In accordance with SSA 560 *Subsequent Events*, the legal letter that GPL received from Rolita is a subsequent event that occurred after the audit report has been issued.

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Question 3 required:

8

- (b)** Describe FIVE actions your firm should take, in accordance with SSA 560 *Subsequent Events*, when your firm received the notification of this subsequent event from the Directors of GPL. **(5 marks)**

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Question 3 required:

9

(c) Relating to the \$800,000 receivables from Rolita:

- i. Describe TWO **quality control procedures** to be performed on the audit that was completed after the firm received notification of this subsequent event; and

(4 marks)

- ii. Describe ONE quality control procedure to be performed on the audit of the revised financial statements.

(1 mark)

10

(d) Discuss whether it is permissible under Singapore Companies Act for the Directors of GPL to voluntarily revise the Financial Statements.

(5 marks)

11

(e) Explain why an “Other Matter” section (or paragraph) should be added to the audit report on the revised financial statements.

(2 marks)

(Total: 25 marks)

Question 4 – (a) to (e)

You are an audit senior assigned to audit the financial statements of Bosanee for the year ended 31 December 20X1. Bosanee is a retailer of budget women apparels. It leases a shop space in Far West Shopping Centre.

Since the COVID-19 outbreak and the various government restriction measures to contain the spread of COVID-19 virus, Bosanee's business has been badly affected.

To reduce the cost of operations, on 1 January 20X2, Bosanee and the landlord agreed to reduce the annual lease payments to \$97,000 for the remaining three years. This reduction in lease payment is not provided for in the original lease agreement. This lease reduction does not qualify for COVID-19 practical expedient because the lease reduction covers period beyond the concession period.

The original lease terms are as follows:

- Leased retail space: 1,500 ft²
- Lease term: 5 years from 1 January 20X0 to 31 December 20X4 with no extension option and no termination option
- Lease payment: \$100,000 per year and payable in arrears

You have extracted the following details of the lease from the client's schedule:

Incremental borrowing rate used for discounting lease payment = 5%		
<u>Right-of-Use Asset (ROU Asset)</u>		\$
Balance 1 January 20X0	present value of 5 payments of \$100,000	432,948
Accumulated depreciation	(432,948/5*2)	(173,179)
Balance 31 December 20X1		259,769
<u>Lease liability</u>	present value of 3 payments of \$100,000	272,325

The Accounting Manager of Bosanee has recalculated the lease liability as follows:

- Present value of 3 payments of \$97,000 discounted using the same incremental borrowing rate of 5% = \$264,155
- The following entries were recorded by Bosanee on 1 January 20X2 to reflect the lease amendment:

Dr Lease liability	\$8,170
Cr Other income	\$8,170

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Question 4 required:

- 12** **(a)** Discuss the appropriateness of Bosanee's accounting treatment for the lease amendment.
- (5 marks)**

Note: Your answer should consider the appropriate accounting treatment.

- 13** **(b)** Describe the audit procedures to be performed:
- i. To confirm the terms of the lease amendment.
- (2 marks)**
- ii. To confirm the incremental borrowing rate to be used for discounting the future lease payments.
- (2 marks)**

- 14** **(c)** Assuming the incremental borrowing rate for the future lease payments is 6%, and your audit procedures have independently verified that the incremental borrowing rate is appropriate, quantify the misstatements in the ROU asset and lease liability as at 1 January 20X2. State the correcting journal entries.
- (6 marks)**

- 15** **(d)** Besides the risk of inappropriate adjustment to the Right-of-Use (ROU) asset due to the lease amendment, describe ONE other risk of material misstatement to the ROU asset that you should consider.
- (5 marks)**

As a promotional campaign, Bosanee is launching a prepayment offer as follows:

Customers can choose to make a prepayment of any amount in the denomination of \$100, for example, \$100 or \$200 or \$300. The prepaid amount can be used to pay for any of the products sold in Bosanne with a 20% discount. For example, if the retail price of the product is \$100, customers utilising the prepayment will only need to use \$80 of the prepayment.

Bosanne has passed the promotion flyers for distribution in your audit firm.

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Question 4 required:

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- (e)** Discuss any ethical issues if any of your firm's professional staff were to sign up for the prepayment offer and advise whether the firm must prohibit the staff from doing so.

(5 marks)

(Total: 25 marks)

END OF PAPER