

Singapore CA Qualification Examination

17 June 2025

Assurance

INSTRUCTIONS TO CANDIDATES

1. The time allowed for this examination paper is **3 hours 15 minutes**.
2. This examination paper has **THREE (3)** questions and comprises **TWENTY-THREE (23)** pages (including this instruction sheet). 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 ISCA's regulations. Please note that watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination and **MUST NOT** be within reach or sight or hearing from where you are seated to write the exam.
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 exam are the property of the Accounting and Corporate Regulatory Authority.
6. Only answers in **English** are accepted.

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 as at 1 January 2025.

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 **"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.

Other important information:

3. 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.
4. You are **NOT ALLOWED** to access any websites during the exam.
5. You are **NOT ALLOWED** to print the question paper.
6. **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 numbers:

+65 6028 9811

7. **You do not need to fill in an answer to this instruction question.**

Question 1 – (a), (b), (c) and (d)

You are the Senior Audit Manager for a company specialising in turnkey projects, Zenith Manufacturing Ltd (“ZML”), for the financial year ended 31 March 2025. **This is the first year that your firm is auditing ZML.**

The financial information of ZML is follows:

Zenith Manufacturing Ltd

Statement of Financial Position

As at 31 March 2025

	31 March 2025 (S\$' millions)	31 March 2024 (S\$' millions)
ASSETS		
<u>Non-current assets</u>		
Property, plant and equipment	650	600
Intangible assets (including Goodwill)	420	380
Investment in associates	150	140
Deferred tax assets	50	45
Total non-current assets	1,270	1,165
<u>Current assets</u>		
Inventories	400	350
Trade receivables	540	500
Cash and cash equivalents	150	130
Total current assets	1,090	980
Total assets	2,360	2,145
EQUITY and LIABILITIES		
<u>Equity</u>		
Share Capital	800	800
Retained earnings	670	420
Foreign currency translation reserve	(30)	(25)
Total equity	1,440	1,195

Non-current liabilities

Borrowings from banks	650	700
Deferred tax liabilities	100	90
Total non-current liabilities	750	790

Current liabilities

Trade payables	130	110
Borrowings from banks	30	40
Other liabilities	10	10
Total current liabilities	170	160
Total liabilities	920	950
Total equity and liabilities	2,360	2,145

Zenith Manufacturing Ltd**Statement of Comprehensive Income****For the financial year ended 31 March 2025**

	31 March 2025 (S\$' millions)	31 March 2024 (S\$' millions)
Revenue	2,000	1,800
Cost of sales	(1,200)	(1,100)
Gross profit	800	700
Other income	50	40
Selling and administrative expenses	(450)	(420)
Impairment losses	(10)	(15)
Operating profit	390	305
Finance costs	(70)	(65)
Share of profit of associates	20	15
Profit before taxation	340	255
Income tax expense	(90)	(70)
Profit for the year	250	185

<u>Other Comprehensive Income</u>		
Foreign currency translation differences	(5)	5
Total comprehensive income	245	190

The following additional information has been provided:

- I. Revenue streams: ZML has two primary sources of revenue:
 - a. Turnkey projects: ZML undertakes large-scale projects where it is responsible for the design, construction, and delivery of fully operational industrial systems to customers. These are complex, long-term contracts with multiple performance obligations. Revenue is recognised over-time, using output method based on milestones achieved, units delivered, or other verifiable deliverables. Turnkey projects made up of 80% of the total revenue for financial years ended 31 March 2024 and 2025.
 - b. After-sales maintenance services: Recurring revenue from maintenance agreement. Revenue is recognised based on a fixed monthly service fees as stated in the agreement. After-sales maintenance services made up of the remaining 20% of the total revenue for the financial years 31 March 2024 and 2025.
- II. Salaries and wages: More than 50% of the selling and administrative expenses relate to salaries and wages of employees.
- III. Debt covenants: ZML's borrowings and their loan agreements include financial covenants linked to the company's debt-to-equity ratio and current ratio. A breach of any covenant could trigger immediate repayment.
- IV. IT systems: ZML recently implemented a new enterprise resource planning ("ERP") system to manage its operations and financial reporting. The new system experienced several technical issues during the transition phase, including data migration errors and difficulties in tracking inventory levels accurately. The IT team, together with the external ERP Specialists, took about

8 weeks to resolve the technical issues costing the ZML an additional S\$200,000 for the implementation of the ERP.

Question 1 required:

- (a) Your firm uses a 3-point response scale of Low, Medium and High for the rating of the assertion-level risks of material misstatement. For each of the assertions stated below, evaluate its inherent risk at the assertion-level based on the inherent risk factors: **Complexity, Subjectivity, Change, Uncertainty and Susceptibility** to misstatement due to management bias and other fraud risk factors, by assessing their likelihood and magnitude using the 3-point response scale. Tabulate your answer in the format below.

Assertion	Likelihood (A) (L, M, H)	Magnitude (B) (L, M, H)	Inherent Risk (A X B) (L, M, H)	Justification (L, M, H)
	(3 marks for each assertion)			(1 mark for each justification)
Occurrence of revenue for turnkey projects				Complexity: Subjectivity: Change: Uncertainty: Susceptibility:
Accuracy of revenue for after-sales maintenance services				Complexity: Subjectivity: Change: Uncertainty: Susceptibility:

(16 marks)

Question 1 cont.

- (b) As ZML has recently implemented a new ERP system to manage its operations and financial reporting, you would like to test the general IT controls. For each of the THREE (3) categories of general IT controls in the table below, identify and describe **ONE (1)** specific area that you would like to test.

General IT Control	Specific Area To Be Tested
Process to manage access (2 marks)	
Process to manage program or other changes to the IT environment (2 marks)	
Process to manage IT operations (2 marks)	

(6 marks)

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Question 1 cont.

- (c) For each of the financial statements' accounts in the table below, elaborate on **ONE (1)** relevant substantive analytical procedure that you would perform.

Financial Statements' Account	Substantive Analytical Procedure (3 marks each)
Revenue (After-sales maintenance services revenue)	
Trade receivables (Ageing analysis for ascertaining the Expected Credit Losses)	
Salaries and wages	

(9 marks)

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- (d) Goodwill of S\$350 million is recorded as part of the intangible assets in ZML's Statement of Financial Position. This amount, which represents a significant portion of the company's total assets, stems from an acquisition made in 1999 and no annual impairment exercise has since been carried out as there is no indication of impairment. Additionally, management stated that goodwill has always been classified together with intangible assets.

How would you respond to the **TWO (2)** management assertions above? For each of the management assertion above, what would be your next appropriate course of action?

(5 marks)

(Total: 36 marks)

Question 2 – Parts A and B

Part A

You are the audit manager responsible for the audit of the consolidated financial statements of **Gamma Technologies Pte Ltd (“GTPL”) and its subsidiaries (collectively, the “Group”)**, a large multinational group based in Singapore. GTPL specialises in three primary areas: software development, artificial intelligence (“AI”) in data analytics, and hardware manufacturing. The company operates in more than 10 countries and has subsidiaries across Asia, Europe, and Latin America. GTPL’s financial statements and the Group’s consolidated financial statements are prepared in accordance with Singapore Financial Reporting Standards (“FRS”).

In recent years, GTPL has experienced rapid expansion, particularly through investments in cutting-edge AI technologies and strategic acquisitions. However, the company is now facing several challenges in key areas of its operations. As the auditor, you have identified several critical issues that could impact the financial statements for the year ended 31 March 2025.

The following material issues have arisen during the audit:

Capitalisation of research and development (“R&D”) costs:

GTPL has invested heavily in the development of a next-generation AI platform designed to revolutionise its data analytics services. The R&D costs for this platform amount to \$50 million, which have been capitalised in the financial statements. However, the AI market is highly competitive, with major players launching similar products. Management’s decision to capitalise these R&D costs assumes the platform will generate substantial future economic benefits. This assumption is uncertain due to market volatility and emerging competition. As per FRS 38 – *Intangible Assets*, management must demonstrate that the project is technically feasible and that it will deliver probable future economic benefits.

Additionally, there are concerns about the project’s timeline. Development delays, resulting from technical challenges in ensuring the compatibility of the platform with

existing data analytics software, have frequently occurred, raising questions about the platform's future viability.

Inventory valuation of hardware products:

In addition to its software and AI products, GTPL manufactures a range of hardware devices, including data servers and communication equipment. Due to the fast-paced nature of the technology sector, a significant portion, more than 50%, of GTPL's hardware inventory is more than a year old. Management has recognised a 10% write-down in the value of this inventory, citing minor obsolescence risks. However, industry reports indicate that the technology is advancing rapidly, which could lead to a more significant reduction in inventory value than anticipated. One of the industry reports estimated that the market value (or net realisable value) of the inventory could decline by 30% within a year from the date of purchase.

Bribery allegations at overseas subsidiary:

One of GTPL's subsidiaries, operating in a developing country in Southeast Asia, has been implicated in a bribery scandal. Allegations relating to those senior officials at the subsidiary who have bribed local government officials to secure lucrative contracts of approximately S\$1 billion for supplying AI solutions to state-owned enterprises have surfaced in the local media. This jurisdiction is known for its weak regulatory environment and history of corruption. The Group has a zero-tolerance policy on bribery. Management, together with the in-house legal team, has dismissed these claims, asserting that they are without merit as there is no direct evidence identified. No provision or disclosure of the allegations were made in the financial statements.

However, your audit team has obtained correspondences with their external solicitors which suggest the allegations might be credible. Based on the correspondences obtained from the external solicitors, under FRS 37, GTPL may have a present obligation arising from a past event, which requires a provision if an outflow of economic benefits is probable. Even if a provision is not required, the allegations may represent a contingent liability that needs to be disclosed in the notes to the financial statements. Additionally, these allegations raise concerns regarding the company's compliance with anti-corruption laws and ethical governance standards, both locally and internationally.

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Question 2 Part A required:

- (i) Identify and explain the risk of material misstatement (“ROMM”) rising from each of the issues above. For each ROMM identified, describe and explain **TWO (2) appropriate audit procedures** to address the identified risk. Tabulate your answers as follows:

	Risk of Material Misstatement (ROMM) (3 marks each)	Audit Procedures (2 marks for each audit procedure)
1	Capitalisation of R&D costs	
2	Inventory valuation of hardware products	
3	Bribery at overseas subsidiary	

(21 marks)

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- (ii) Based on the Ethics Pronouncement (EP) 100 *Code of Professional Conduct and Ethics* (“ISCA Code”), describe and explain three actions that you should take in accordance with the pronouncement of Responding to Non-Compliance with Laws and Regulations (NOCLAR) in relation to the bribery allegations at the overseas subsidiary.

(6 marks)

Part B

During the audit, one of your junior members of the audit team posted comments on social media discussing the bribery allegations involving GTPL's overseas subsidiary. In the post, the auditor expressed personal views about the credibility of the allegations and suggested that the company may be involved in unethical practices. The post gained widespread attention and was shared across various platforms, sparking public discussion about GTPL's ethics and governance.

e-Exam Question Number	Question 2 Part B required:
8	<p>(i) Discuss a fundamental principle that has been violated in Ethics Pronouncement (EP) <i>100 Code of Professional Conduct and Ethics</i> ("ISCA Code"). Suggest one way on how your audit firm can prevent future occurrences of such situation.</p> <p style="text-align: right;">(3 marks)</p> <p style="text-align: right;">(Total: 30 marks)</p>

Question 3 – Parts A, B and C

Part A

You are the Senior Audit Manager responsible for the audit of TechnoDynamics Pte Ltd (the “Company”) and its subsidiary (collectively, the “Group”) for the financial year ended 31 March 2025. The Company operates in the technology sector and its wholly owned subsidiary is involved in software development and data storage services. The subsidiary's office and data centre are in Thailand, specifically in coastal areas that are increasingly exposed to physical risks due to climate change, such as rising sea levels, coastal erosion, and more frequent extreme weather events, including storms, flooding, and typhoons. In 2023, its data centre in Thailand had experienced an incident where flooding had caused a prolonged downtime of 3 weeks due to saltwater intrusion affecting water supplies and power outages caused by grid disruptions from excessive heat.

Management has identified these physical risks as potential factors that could affect the subsidiary's operations and profitability, triggering an impairment review of the Cash Generating Unit (“CGU”), i.e. the subsidiary. In response, management has prepared discounted cash flow projections that consider the expected financial impact of these risks as presented below.

The key climate-related risks identified by management are as follows:

- **Rising sea levels and coastal flooding:** The subsidiary's office and data centre are located less than 2 meters above sea level. Management expects a 40% chance of severe flooding within the next 5 years, which could lead to operational disruptions. These disruptions are expected to reduce production capacity and may result in extended downtime for the data centre.
- **Increased frequency and intensity of extreme weather events:** The region is prone to seasonal typhoons and heavy rainfall, which are projected to become more frequent and intense due to climate change. These events are expected to cause power outages, damage to infrastructure, and disruptions in supply chains, all of which could negatively impact revenue and increase operational costs.

- **Regulatory and compliance costs:** As a response to climate risks, the local government is expected to introduce stricter environmental regulations within the next two years. These new regulations may impose additional costs related to compliance, energy efficiency standards, and waste management, which will increase the subsidiary's capital expenditure and operating expenses.
- **Insurance premium increases:** Insurance companies in the region have started to adjust their policies to reflect the increased risks of climate-related damage. Management anticipates a 20% annual increase in insurance premiums over the next five years to cover potential flood damage and business interruption, significantly affecting the cost structure.

Management has proposed **mitigation measures** to safeguard the CGU's operations, including:

- Relocating backup data centres to higher ground, which would incur relocation and equipment costs.
- Budgeting an additional **\$300,000 annually** for Years 3 (FY2028), 4 (FY2029) and 5 (FY2030) to cover the capital expenditure required for these mitigation efforts for replacing the existing property, plant and equipment as of 31 December 2025.

The discounted cash flow projections prepared by management to assess the value in use of the CGU, i.e. the subsidiary, are as follows:

Discounted cash flow projections

	2026 S\$'000	2027 S\$'000	2028 S\$'000	2029 S\$'000	2030 S\$'000	S\$'000
Revenue	8,000	8,400	8,820	9,724	10,210	
Less: Cost of Sales (@ 50% Revenue)	(4,000)	(4,200)	(4,410)	(4,862)	(5,105)	
Gross Profit	4,000	4,200	4,410	4,862	5,105	
Less: Operating expenses (20% of Revenue)	(1,600)	(1,680)	(1,764)	(1,945)	(2,042)	
EBIT (Earnings Before Interest and Tax)	2,400	2,520	2,646	2,917	3,063	
Less: Tax @ 17%	(408)	(428)	(450)	(496)	(521)	
Add: Depreciation and Amortisation expense	500	500	500	500	500	
Less: Capital expenditure (for ordinary course of business)	(400)	(400)	(400)	(400)	(400)	
Less: Additional capital expenditure required (refer to mitigation measures)	-	-	(300)	(300)	(300)	
Add/Less: Changes in working capital	(100)	50	70	20	(50)	
Free Cash Flows (FCF)	1,992	2,242	2,066	2,241	2,292	
Terminal value						38,969
Discounted FCF and Terminal value	1,917	1,997	1,705	1,712	1,621	27,562
Enterprise value	36,514					
WACC:	8%					
Terminal growth rate:	2%					

The additional assumptions used for the preparation of the discounted cash flows are as follows:

- Management expect revenue to grow at 5% annually despite the increased in downtime, infrastructure damage and supply chain disruptions.
- Operating expenses include administrative expenses and insurance premiums. Based on past financial performance, management is confident to maintain the operating expenses at 20% of revenue despite the increase in insurance premium cost of 20% annually over the next five years.
- Capital expenditure for the ordinary course of the business and mitigation measures include only expenditure for replacing the existing property, plant and equipment as of 31 December 2025 and it does not include any future cash outflows that will be required to improve or enhance the performance of the CGU as required by FRS 36.
- The working capital is determined based on CGU's current assets and current liabilities of the last two financial years. Current assets include account receivables, inventory and prepaid expenses. Current liabilities include account payables, accrued expenses and non-interest-bearing short-term liabilities.
- Discount rate (WACC): 8%
- Terminal growth rate: 2%, this represents the long-term inflation rate.

Question 3 Part A required:

- (i) Describe and explain the **TWO (2)** specific audit procedures that your audit team would perform for the following:

No.	Management Assumption	Audit Procedures (2 marks each)
1	Revenue: How would you assess the reasonableness of management assumptions on the impact of physical risks of climate changes, such as floodings, for the revenue projections over the next 5 years. (4 marks)	
2	Regulatory and compliance costs: How would you assess the reasonableness of management assumptions on the impact of regulatory and compliance costs for the projections of operating costs over the next 5 years. (4 marks)	
3	Discount rate (WACC): How would you assess whether the discount rate of 8% includes the climate-related risk? (4 marks)	

(12 marks)

Question 3 Part A cont.

- (ii) Based on the management's discounted cash flows projections, identify and explain **ONE (1)** management assumption relating to the capital expenditure for the ordinary course of business and mitigation measures that you are sceptical about. The management assumption identified should not include any of the management assumptions in Part A (i) above. Describe and explain **TWO (2)** audit procedures that you would perform to address the following management assumption. Tabulate your answers as follows:

Management Assumption (2 marks)	Audit Procedures (2 marks each, 4 marks in total)
Capital expenditure:	

(6 marks)

Part B

From the Statement of Financial Position provided by management, the carrying amount of the subsidiary (CGU) is as follows:

	<u>S\$'000</u>
Carrying amount of CGU as of 31 March 2025:	<u>38,500</u>

Management asserted that no impairment to the non-financial assets of the subsidiary is required although the recoverable amount of CGU of S\$36,514,000 is less than carrying amount of S\$38,500,000. Management further substantiated that the way the value in use computation is calculated is overly conservative, given that it has failed to consider the potential new product lines and the future restructuring of the subsidiary to which the Group has yet to commit.

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Question 3 Part B required

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| 11 | <p>(i) In the absence of any other method for determining the recoverable amount, as required by FRS 36, performed by management to ascertain the recoverable amount, do you agree or disagree with the management assertion that no impairment to the non-financial assets of the subsidiary (CGU) is required? State your rationale and discuss how much you would propose to be adjusted against the non-financial assets if impairment is required.</p> <p style="text-align: right;">(2 marks)</p> |
| 12 | <p>(ii) Do you agree with management's assertion that the value in use computation is overly conservative? Why or why not? Should the potential new product lines and the uncommitted restructuring of the subsidiary be included in the value in use computation.</p> <p style="text-align: right;">(3 marks)</p> |
| 13 | <p>(iii) Since the value in use amount is less than the carrying amount, what alternative method, as required by FRS 36, would you suggest management to use for determining the recoverable amount?</p> <p style="text-align: right;">(1 mark)</p> |

Part C

On 29 April 2025, the subsidiary experienced a category 5 typhoon, followed by severe flooding, causing unprecedented and catastrophic damages to the subsidiary's office and data centre in Thailand. This has resulted in a complete shut-down of its operations for over six weeks, with repair and recovery efforts delayed due to subsequent severe flooding in Thailand. The data centre is submerged in water leading to data corruption and damages in servers, networking equipment and storage devices. The subsidiary does not have a Disaster Recovery Plan in place. The total damages are estimated to be approximately S\$5 billion, which represented approximately 30% of the net assets of the Group.

Management asserted the damages of approximately S\$5 billion **need not** be recognised in the financial statements of the Group for the year ended 31 March 2025 as the typhoon occurred after the reporting date.

Management presented the following disclosure note for the subsequent event to the Group's financial statements:

“The subsidiary experienced a category 5 typhoon on 29 April 2025. Management is in the process of ascertaining the damage to its office and data centre.”

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Question 3 Part C required

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- (i) Do you agree or disagree with the management assertion that the damages of S\$5 billion need not be recorded in the Group's financial statements for the financial year ended 31 March 2025? State your rationale.

(3 marks)

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- (ii) You are tasked to review the management's disclosure note to the financial statements for the subsequent event. Outline your recommendations to management on **TWO (2)** specific areas that should be included in the subsequent event disclosure note in the financial statements for the financial year ended 31 March 2025. You are not required to draft the Notes to be disclosed in the financial statements.

(4 marks)

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- (iii) Is an Emphasis of Matter on the category 5 typhoon required in the Group's independent auditors' report? State your rationale.

(3 marks)

(Total: 34 marks)

END OF PAPER