

Singapore CA Qualification (Foundation) Examination

25 June 2024

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 ISCA's regulations. Please note that smartwatches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
5. During the examination, videos of you and your computer screen will be recorded for the purpose of ensuring examination integrity and you have consented to these recordings.
6. This examination paper and all video recordings of this exam are the property of the Accounting and Corporate Regulatory Authority.

MODULE-SPECIFIC INSTRUCTIONS:

7. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
8. Unless specified otherwise, assume that all the reporting entities in all the questions adopt, for all the relevant years, the Singapore Financial Reporting Standards (International) (SFRS(I)) that were issued by the Accounting Standards Council, the Singapore Standards on Auditing (SSA) and the Code of Professional Conduct and Ethics issued by the Institute of Singapore Chartered Accountants (ISCA) as at the date of this examination.

IMPORTANT NOTICE:

If you are not feeling well, please do not press “Start Assessment”. If you have started and leave during the exam, you would be deemed to have attempted the paper.

****VERY IMPORTANT NOTICE****

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

Other important information:

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

Should you encounter any issues during the exam, please call the following number:

+65 6028 9811

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

Question 1 – (a), (b), (c) and (d)

Detox Liquide & Co (DL) is a detergent manufacturer. DL's bestselling product is a fast-action mould removal spray based on a patented technology. The founder Lester Ong approached your firm with a view to appointing your firm as the auditor for the next financial year.

You are considering whether the preconditions required in SSA 210 – Agreeing the Terms of Audit Engagements can be established. According to SSA 210, to establish whether the preconditions for an audit are present, the auditor shall:

- (a) Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable; and
- (b) Obtain the agreement of management that it acknowledges and understands its responsibility:
 - (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
 - (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- (c) To provide the auditor with:
 - (i) Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - (ii) Additional information that the auditor may request from management for the purpose of the audit; and
 - (iii) Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Lester Ong has stated that a condition for awarding the audit engagement to your firm is that the following accounts and associated transactions are excluded from the scope of the audit:

- PPE
- Inventory
- Intangible assets

As information relating to the above gives away DL's trade secret, Lester believes the exclusion is consistent with the auditor's principle of confidentiality. Lester implies that auditing the above three accounts will breach the principle of confidentiality.

According to Lester Ong, the total balances of the above three accounts are likely to account for more than 80% of DL's total assets.

**e-Exam
Question
Number**

2

Question 1 required:

(a)

(i) Out of the six preconditions (i.e. (a), (b)(i), (ii), (c)(i), (ii), (iii)), identify and explain **THREE** preconditions for an audit that are not present in this case. **(6 marks)**

(ii) In relation to the exclusion from the scope of audit as suggested by Lester Ong, explain why your firm should not accept this engagement as an audit engagement. **(4 marks)**

You have explained to Lester Ong why your firm cannot accept such limitations in an audit engagement. Assume that Lester Ong agrees to remove the restriction and you have established that the preconditions for an audit are now present. You then explain the overview of the audit process to Lester Ong, including the use of the engagement letter and representation letter. Lester Ong is still confused between the engagement letter and representation letter.

**e-Exam
Question
Number**

3

Question 1 required:

(b) In relation to DL as a new client, compare and contrast the engagement letter and management representation letter in terms of:

- The purpose of the letter **(2 marks)**
- The preparer of the letter **(2 marks)**
- The date the letter is likely to be signed **(2 marks)**

For example, in relation to the management letter:

- Purpose = to communicate to management and those charged with governance the significant control deficiencies detected during the audit
- Preparer = the auditor
- Date = during the audit engagement

DL requires a significant loan from a bank to fund its development of new products. Lester Ong told you that the bank wants the audited financial statements as part of the submission to consider DL's loan application. Lester believes the bank is focusing on the profitability of DL.

SSA 200 explains that the risks of material misstatement may exist at two levels: the overall financial statement level; and the assertion level for classes of transactions, account balances and disclosures.

SSA 315 states that risks at the financial statement level relate pervasively to the financial statements as a whole and potentially affect many assertions.

**e-Exam
Question
Number**

Question 1 required:

4

- (c)** Explain why the need to secure a significant loan by DL is a source of risk of material misstatements (RMM) at the financial statement level. Your answer should include **FOUR** examples relating to misstatements at assertion levels affecting revenue and expenses. **(5 marks)**

According to your firm's audit methodology, materiality for the financial statements as a whole (hereinafter known as materiality level) for clients such as DL is to be between 1% and 2% of revenue. Given the RMM above:

**e-Exam
Question
Number**

Question 1 required:

5

- (d)** Determine whether the materiality level should be 1% of revenue or 2% of revenue, and explain the reasons for your decision.

(4 marks)

(Total: 25 marks)

Question 2 – (a) to (e)

Copy Cat Pte Ltd (CC) is a trader of ink cartridges for printers. CC imports ink cartridges in bulk from overseas manufacturers and is thus able to obtain bulk discounts and charge lower prices than its competitors. CC's customers are businesses which place orders with CC regularly and they pay CC on a 60-day credit term. You are an audit senior assigned to lead the audit fieldwork and also mentor Romeo, an intern assigned to your engagement team. Romeo has read the following from the auditing standards.

According to SSA 505 – External Confirmations, a positive external confirmation request asks the confirming party to reply to the auditor in all cases, either:

- (1) by indicating the confirming party's agreement with the given information (hereinafter known as "normal confirmation requests"), or
- (2) by asking the confirming party to provide information (hereinafter known as "blank confirmation requests").

For blank confirmation requests, paragraph A5 of the SSA 505 explains that the auditor may perform positive confirmation requests that do not state the amount (or other information) on the confirmation request, and ask the confirming party to fill in the amount or furnish other information.

Romeo has further questions about positive confirmations and has asked for your help.

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Question
Number**

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Question 2 required:

- (a)** In relation to positive confirmations:
- (i)** Explain an advantage of the blank confirmation requests as compared to the normal confirmation requests.
(2 marks)
 - (ii)** Explain a disadvantage of the blank confirmation requests as compared to the normal confirmation requests.
(2 marks)
 - (iii)** Provide an example whereby blank confirmation requests are usually performed instead of the normal confirmation requests.
(2 marks)

The trade receivables of CC are assessed to be most susceptible to the risk of understatement, i.e. the trade receivables are more likely to be understated than overstated.

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Question
Number**

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Question 2 required:

- (b)** Explain whether blank confirmation requests are more appropriate than normal confirmation requests in response to this risk of material misstatements.

(2 marks)

Note: Your answer should not include the risk that the confirming customers simply confirm without verifying the balances.

Romeo has read about the subsequent payment tests. However, he is confused about the two different types of subsequent payment tests and their objectives. He is also unsure about the objective of certain audit procedures relating to fixed assets and inventories.

**e-Exam
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Number**

Question 2 required:

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(c) Explain the objectives of the following tests of details. Your explanation should include a main assertion that can be verified.

(i) Select samples of trade payables from the year-end trade payable listing (with individual trade payables extracted from the trade payable ledger). For samples selected, trace the outstanding invoices to subsequent payment in post-year end bank statement and cash book.

(2 marks)

(ii) Select samples of payment to suppliers from the post-year end payment vouchers, sight the supporting documents including, purchase orders, goods received notes, invoices and post-year end bank statement and cash book. If the payments relate to pre-year end transactions, trace the transaction to pre-year end payable ledger.

(2 marks)

(iii) For the physical inspection of fixed assets selected from the fixed asset register, record any fixed assets that are damaged or not in use and these assets should be subject to further audit procedures.

(2 marks)

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(iv) From the inventory aging report, identify slow-moving inventory items. Review post-year end sales invoices to see whether any of these slow-moving inventory items have been sold after year end and note the sale prices in the audit working paper for further audit procedures to be performed. **(2 marks)**

(d) For parts **(2)(c)(iii)** and **(2)(c)(iv)** above, describe the **ONE** further audit procedure to be performed for each of them. **(4 marks)**

While waiting for the self-constructed warehouse to be ready, the company has rented a large warehouse on a temporary basis since the beginning of the current financial year. The lessor issues monthly invoices at the beginning of each month with a 30-day payment term. CC records the monthly invoices when received from the lessor as follows:

Dr Rental expense \$xxx
 Cr Payable \$xxx

Romeo has examined the lease agreement and monthly invoices from the lessor and confirmed that the monthly lease payment amounts are correct. You have told Romeo CC's accounting treatment for this lease is likely to be wrong unless the conditions for an exception allowed in FRS 116 – Leases are met.

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Question
Number**

10

Question 2 required:

(e)

- (i)** Briefly explain how the above lease transaction should be initially accounted for normally, as required by FRS 116 – Leases.

(2 marks)

Present your answer in the form of the applicable journal entries. Amounts are NOT required.

- (ii)** Explain the conditions under which CC's accounting treatment for the above lease would be appropriate.

(3 marks)

(Total: 25 marks)

Question 3 – (a), (b) and (c)

You are an audit manager who is tasked to produce training materials on the auditor's report on the financial statements for newly promoted audit seniors. In particular, you need to draft the suggested solutions for the quiz for the audit seniors.

A draft paragraph of the opinion section in the auditor's report for a Singapore-registered company is as follows:

Opinion

We have audited the financial statements of ABC Private Limited.

In our opinion, the accompanying financial statements are properly drawn up so as to give a true and fair view of the financial position of the Company as at 30 June 2024 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

e-Exam Question Number

11

Question 3 required:

(a)

- (i) Identify and explain **THREE** deficiencies in the above draft: one deficiency from the first paragraph and two deficiencies from the second paragraph.

(5 marks)

- (ii) Explain how uncorrected misstatements which are considered as immaterial should be included in the auditor's report on the financial statements.

(2 marks)

(iii) Explain the **TWO** conditions that must be met for an unmodified opinion to be issued.

(2 marks)

(iv) Discuss whether the auditor could refer to the reliance on an auditor's expert by adding an "Other Matter" paragraph in the auditor's report when the audit opinion is unmodified.

(2 marks)

(v) Explain whether the auditor could add an "Emphasis of Matter" paragraph in the audit report to highlight the uncorrected misstatements that are considered immaterial.

(2 marks)

(vi) Explain the situation when it is inappropriate to add a "material uncertainty related to going concern" section in the audit report when the auditor concluded that the entity faces material going concern uncertainty.

(2 marks)

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(b) If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements:

(i) State the immediate next step the auditor shall take.

(1 mark)

(ii) If management is unwilling to make or extend its assessment when requested to do so by the auditor, explain the implications on the audit opinion.

(3 marks)

SSA 560 – Subsequent Events divide the subsequent events that occurred period after the financial year end into 3 periods:

- 1) Events occurring between the Date of the Financial Statements and the Date of the Auditor's Report
- 2) Facts Which Become Known to the Auditor after the Date of the Auditor's Report but before the Date the Financial Statements are Issued
- 3) Facts Which Become Known to the Auditor after the Financial Statements Have Been Issued

In the following case, the management of the entity informs you, their auditor, after you have signed the audit report but before the audited financial statements and the audit report have been issued, that a material fraud of assets misappropriation before the year end was uncovered. Management has amended the financial statements to take into account the fraud.

**e-Exam
Question
Number**

13

Question 3 required:

- (c)** Describe **THREE** actions the auditor should perform in relation to the amended financial statements.

(6 marks)

(Total: 25 marks)

Question 4 – (a), (b), (c) and (d)

You are the audit manager assigned to audit the financial statements of PS Pte Ltd (PS). PS is a small chain of minimarts operating in seven HDB estates. Each minimart is managed by a store manager supported by 2 cashiers and 2 storemen. All minimarts operate from 8 am to 6 pm daily except Monday when they are closed.

A simple point-of-sales (POS) system is installed at each minimart which includes:

- A bar code scanner to scan the bar code on the products;
- A printer to print sales receipts for customers;
- A cash tray to store coins and bank notes;
- A product database which stores all product information, including the bar codes and selling prices; and
- A sales database which records and stores daily sales information, including sequential sales invoice numbers, products sold, prices and invoice values. Daily sales are electronically transferred to the daily sales system of the accounting software.

PS operates on a cash basis only.

Each day, when closing the minimart, the store manager will print the sales summary report which records the total sales value. The cashier will count the cash in front of the store manager. If the cash counted tallies with the sales report, both the cashier and the store manager will sign on the sales report.

Every morning, except Monday when the minimarts are closed, the accountant of PS will go to each minimart to collect the cash and the sales reports. The cash is deposited in the bank account of PS. The accountant then updates the cash book and uses the sales report figures to record sales revenue in the general ledger using journal entries. The date of posting is the date of the sales reports.

The accountant performs a bank reconciliation on a monthly basis. As the accountant is the most senior person in PS that knows how to read the bank reconciliation, the bank reconciliation is not reviewed by any other personnel within PS.

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Question
Number**

14

Question 4 required:

(a)

(i) Describe **TWO** tests of controls that could be performed on the daily cash count at the minimart.

(2 marks)

(ii) Describe an audit procedure that could be performed to verify whether the accountant has prepared the bank reconciliation correctly.

(2 marks)

(iii) Describe the test of details to be performed to ensure the completeness of recording of sales revenue.

(2 marks)

(iv) Describe the test of details to be performed to ensure the occurrence of sales revenue that have been recorded in the general ledger.

(2 marks)

(v) Explain whether cutoff risk relating to sales revenue is high or low.

(2 marks)

There is a risk that the accountant may misappropriate cash collected from the minimarts and not deposit all cash collected into the bank account.

**e-Exam
Question
Number**

Question 4 required:

15

- (b)** Suggest one improvement to the internal control procedures that could enable the management of PS to detect the above cash misappropriation.

(2 marks)

PS pays all their suppliers by cheque. Given that the Monetary Authority of Singapore (MAS) today announced that all corporate cheques will be eliminated by end-2025, PS is planning to pay suppliers via bank transfer from the beginning of the next financial year. The management of PS is seeking your advice on what to expect when PS discontinues cheque payments.

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Question 4 required:

16

- (c)** In the context of PS's imminent discontinuance of the use of cheques:

- (i)** Explain the implications on the reconciling item of uncleared lodgements (i.e. cheques received by PS but not yet cleared by the bank) in the bank reconciliation.

(2 marks)

- (ii)** Explain the implications on the reconciling item of unrepresented cheques (i.e. cheques have been written and accounted for by PS, but have not yet been paid out by the bank from which the money is being drawn) in the bank reconciliation.

(2 marks)

(iii) Explain the implications on the reconciling item of cash-in-transit (i.e. cheques payment made and accounted for by PS but not yet recorded by the suppliers) in the payable reconciliation. **(2 marks)**

(iv) Explain if the invoices under “cash-in-transit” in the payables reconciliation (between payables ledger balances and supplier statements) are expected to be included as “unpresented cheques” in the bank reconciliation. **(2 marks)**

PS management has requested your firm to review the cash flow forecast and issue an assurance report on the cash flow forecast which is required to support a bank loan application and meets the bank to support the loan application.

**e-Exam
Question
Number**

Question 4 required:

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(d) Using the information provided above, discuss the ethical threat(s) that could arise:

(i) If your firm meets the bank to support the loan application. **(2 marks)**

(ii) If your firm performs a review assurance engagement on this cash flow forecast. **(3 marks)**

(Total: 25 marks)

END OF PAPER

Appendix A – Common verbs used by the Examiners

Verb	Description
Compare and Contrast	Compare requires you to show how things are similar and/or different while contrast requires you to show how things are different or opposite. Even if you are asked just to compare , you must indicate both the similarities and differences.
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.
Determine	Ascertain or conclude after analysis and evaluation the most appropriate course of action or most correct answer from a range of viable alternatives.
Discuss	<p>Discuss requires you to provide the for and against arguments, you cannot have a discussion without opposing views otherwise it would be just a conversation. If discuss is placed near the front of the instruction, then it requires you to provide an answer that is similar to explain, but addresses both the for and against arguments. For instance, “Discuss why numerical valuation is essential when buying or selling a small business”.</p> <p>However, if there is a statement and discuss is placed at the end, your answer <u>must be</u> in the form of <u>an essay</u> with the following elements:</p> <ul style="list-style-type: none"> • An introduction, which declares whether you agree, disagree, partly agree, or partly disagree with the statement; • The body of your answer, stating: i) Why it is possible to agree <u>and</u> ii) why it is possible to disagree with the statement. You should provide examples to support both points of view; and • A conclusion that proves your original position. <p>An example of a discuss question that requires an essay style answer would be “Numerical valuation is not essential when buying or selling a small business because the actual selling price is the outcome of negotiation. Discuss”.</p>
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.

Verb	Description
Identify	<p>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.</p> <p>Often identify will require you to select a specific issue or issues, but not all issues, so you need to look out for any qualifying words. For instance, "Identify the <u>Board Matters</u> ..." is asking you to focus solely on issues that relate to Board Matters from the Singapore <i>Code of Corporate Governance</i> so if you digress and identify remuneration issues, you will not score well. Another example is "Identify the companies that qualify as members of a group for the purposes of group tax relief". In order to score well in this second example, you need to identify the companies and state why they are included in the group. You also need to state if a company is not included and why.</p>
Propose/ Provide	<p>Put forward (for example, a point of view, idea, argument, alternatives, etc.) for consideration or action. For instance, "Based on the facts of the case, propose the most tax-effective entity type ...", or "Propose audit adjusting entries to correct ...".</p>
State	<p>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.</p>
Use / Using	<p>This instruction tells you the type of model that you must use when formulating your answer. For instance, "Using the Discounted Cash Flow approach, ..." tells you what valuation approach to use. Another common phrase is "Using the facts of the case, ...", which tells you that you must relate your answer to the specific facts given in the question scenario. Generic answers will not pass.</p>