



Singapore CA Qualification (Foundation) Examination

19 June 2025

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-FOUR (24)** pages (including this instruction sheet, Appendix A and Appendix B). 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 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.
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

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) to (e)

ABC Company (ABC) is a new audit client for your firm. You are the audit manager assigned to audit ABC's financial statements for the financial year end of 31 May 2025.

You have sent a draft engagement letter to the management of ABC. The Finance Director of ABC has made amendment to the addressee and the first two paragraphs of the draft engagement letter are as follows:

To the shareholders of ABC Company

The objective and scope of the audit

You have requested that we audit the financial statements of ABC Company, which comprise the statement of financial position as at 31 May 2025, and the statement of comprehensive income for the year then ended, statement of changes in equity and statement of cash flows for the year then ended. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain maximum assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Maximum assurance is a guarantee that an audit conducted in accordance with Singapore Standards on Auditing (SSAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**e-Exam
Question
Number**

Question 1 required:

2

- (a)** Identify and explain three deficiencies in the above extracts of the draft engagement letter.

Note: You are **NOT** required to re-draft the above paragraphs.

(6 marks)

The Finance Director has requested the scope of the audit to be reduced by excluding the audit of the statement of changes in equity and the statement of cash flows as the management and shareholders do not read them at all.

3

- (b)** Explain whether the auditor should agree with the scope exclusion.

Your answer should state the scope of a complete set of financial statements and the preconditions of an audit and explain which precondition is not met (you are not required to list all the preconditions).

(4 marks)

The Finance Director has proposed that the audit fee be 4% of the operating profit in the audited income statement.

4

- (c)** Identify and explain the ethical threat arising from the proposed audit fee arrangement and discuss whether the audit firm should agree with the proposed audit fee arrangement.

(4 marks)

**e-Exam
Question
Number**

Question 1 cont.

5

(d) As the prior year's financial statements were audited by another audit firm, DEKP LLP (DEKP),

(i) Explain whether your firm should review the audit working papers of DEKP.

(2 marks)

(ii) Explain how the fact that prior year's financial statements were audited by a predecessor audit firm should be reflected in the "Emphasis of Matter" paragraph or the "Other Matter" paragraph in the audit report.

Your answer should state your choice and provide a brief content of the paragraph to be added. You are not required to discuss the option not selected by you.

(5 marks)

The management has suggested your audit team relies on the company's internal auditor to perform some of the test of details on the provision of obsolete inventories, which have been assessed as having a high risk of material misstatement. The newly-formed internal audit function consists of two assistants transferred from the marketing department and they report to the finance manager.

6

(e) State and explain two reasons why the management's suggestion should be declined.

(4 marks)

(Total: 25 marks)

Question 2 – (a) to (e)

Super Bus Pte Ltd (SB) is a new bus operator that has been awarded a license by the Land Transport Authority (LTA) to run the bus routes in the North-West region of Singapore. SB is a new audit client of your audit firm and you are the audit manager assigned to the engagement. You are planning the audit engagement for the financial year ending 31 July 2025. The following information is obtained from your planning meetings with the management of SB.

SB has one bus depot in Kranji where buses are parked overnight. Some buses are parked at the bus interchanges operated by SB. Under the LTA's Bus Contracting Model, buses are owned by LTA and SB leases the new buses from LTA for five years. The lease terms including annual lease payments payable in advance are included in the LTA Tender Award Agreement (TAA).

SB also runs a fleet of buses owned by itself for chartering. Its main customers are corporates chartering buses for the transfer of their workers from dormitories to worksites on a daily run trip basis for five days a week. The standard contract with corporate customers is for twelve months and customers are required to make full twelve-month payments at the commencement of the contract. Invoice values in the invoices issued to the corporate customers are recorded as trade receivables and revenue. These buses are also chartered on an adhoc basis to tour operators to transport tourists to visit tourist attractions.

Buses on leases are painted in green colour and buses that are owned by SB are painted in orange colour.

SB's written accounting policy includes the followings:

- Buses leased from LTA are recognised as right-of-use assets (ROU assets). Lease liabilities are computed using unpaid lease payments at the commencement date of the lease and are discounted using incremental borrowing rate (IBR).
- ROU assets are depreciated on a straight-line basis over a useful life of five years.

- Buses owned by SB are recognised as “Property, Plant and Equipment” (PPE) at cost. These buses are depreciated based on the mileage travelled as a percentage of total expected mileage over eight years. i.e. $\text{depreciation rate} = \frac{\text{mileage travelled}}{\text{total expected mileage}}$

SB determines the IBR by obtaining quotations from its banker for a loan to acquire the use of the buses for five years.

**e-Exam
Question
Number**

Question 2 required:

The audit engagement partner has instructed you to use revenue as the basis for determining the materiality for the financial statements as a whole (i.e. overall materiality). Your firm's approved audit manual requires materiality to be set between 1% to 2% of revenue. As of 30 June 2025, SB's revenue is forecast to be \$30 million for the year.

- 7** **(a)** Determine and justify whether the overall materiality for the audit of SB should be 1% of revenue or 2% of revenue.
(2 marks)

- 8** **(b)** Evaluate the depreciation methods of the ROU buses and the PPE buses, i.e. whether the depreciation methods are consistent with principles in the relevant accounting standards.

You are not required to quote the number and title of accounting standards.
(6 marks)

- 9** **(c)** Assess the risks of material misstatements relating to revenue from the operations of PPE buses.
(4 marks)

**e-Exam
Question
Number**

Question 2 cont.

10

(d) Describe the audit procedures to be performed to obtain sufficient and appropriate evidence for:

(i) The incremental borrowing rate (IBR).

(1 mark)

(ii) The existence of the PPE buses in the fixed asset register.

(1 mark)

(iii) The completeness of the PPE buses in the fixed asset register.

(1 mark)

(iv) The annual lease payments.

(1 mark)

(v) The initial lease liabilities relating to the leases for ROU buses.

(1 mark)

Note: One audit procedure for each item above.

11

(e) Explain the objective of the following audit procedures and the assertions verified:

(i) Sight twenty green SB buses on the road, note the registration number of the buses and inspect them in the ROU buses register.

(2 marks)

(ii) Select twenty orange SB buses in the fixed asset register and physically inspect these buses in the bus depot or in the bus interchange.

(2 marks)

(iii) Select twenty orange SB buses from the fixed asset register and compare the purchase cost of the buses in the fixed asset register to the cost in the supplier invoices.

(2 marks)

(iv) Obtain the orange buses depreciation worksheet prepared by management, agree the “mileage travelled” to the vehicle log that records the daily mileage of each bus and recalculate the depreciation charge.

(2 marks)

(Total: 25 marks)

Question 3 – (a) to (e)

Payserve & Co is a recruitment agency. Your audit firm is auditing the financial statements for the year ended 30 April 2025. You are the audit senior assigned to audit the payroll expenses.

Payserve & Co has a Human Resource Department that maintains personnel records for each employee, including the initial employment contracts and subsequent promotion letters and pay revision letters. A separate payroll department prepares the monthly payroll at departmental level, i.e. there is a payroll report for sales department, a payroll report for operations department, a payroll report for accounting department, so on and so forth.

Management does not anticipate any bonus for the year end as the general economic condition is not good and has informed employees to be mentally prepared that there could be no bonus for the year in a townhall meeting held in June 2024.

As an illustration for giving instructions to your audit assistant, you have obtained the payroll calculation spreadsheet for the accounting department of Payserve & Co for the month of April 2025 prepared by the payroll department as follows:

| Employee | | | | | | | |
|-----------------|---------------------|-----------------------|------------------|---------------------|------------------|---------------------|-------------------|
| staff ID | Salary for | Salary subject | Employer | Employer CPF | Employee | Employee CPF | Total CPF |
| number | the month \$ | to CPF \$ | CPF rates | payable \$ | CPF rates | payable \$ | payable \$ |
| 1 | 2,500.00 | 2,500.00 | 17.00% | 425.00 | 20.00% | 500.00 | 925.00 |
| 2 | 4,500.00 | 4,500.00 | 17.00% | 765.00 | 20.00% | 900.00 | 1,665.00 |
| 3 | 6,500.00 | 6,500.00 | 17.00% | 1,105.00 | 20.00% | 1,300.00 | 2,405.00 |
| 4 | 7,500.00 | 7,400.00 | 15.00% | 1,110.00 | 16.00% | 1,184.00 | 2,294.00 |
| 5 | 8,500.00 | 7,400.00 | 9.00% | 666.00 | 7.50% | 555.00 | 1,221.00 |
| Total | 29,500.00 | | | 4,071.00 | | 4,439.00 | 8,510.00 |

**e-Exam
Question
Number**

12

Question 3 required:

(a) Using employee 4 as an example, explain to the audit assistant the audit procedures to confirm the following:

(i) Employee 4 is a bona fide employee.

(2 marks)

(ii) Salary for the month is \$7,500.

(1 mark)

(iii) Salary subject to CPF is \$7,400.

(1 mark)

(iv) Employer CPF contribution rate is 15%.

(2 marks)

(v) Employer CPF payable is \$1,110.

(1 mark)

See **Appendix A** – Applicable CPF Contribution Rates

Note: One procedure is required for one mark.

Question 3 cont.

- (b)** Explain why the following journal entries for posting the salary costs are incorrect and recommend the correct journal entries that should have been posted.

Marks are allocated as follows:

- Explanation – 3 marks
- Correct journal entries – 4 marks

Dr Salary costs – P/L \$29,500

Cr CPF Payable – B/S \$8,510

Cr payable to employees – B/S \$20,990

- P/L refers to Profit or Loss Statement
- B/S refers to Balance Sheet

(7 marks)

You are aware that the CPF (Central Provident Fund) Board imposed a ceiling on ordinary wages subject to CPF and different contribution rates based on the age of employee.

Based on the draft financial statements, the management was very pleased as the company's financial performance exceeded the target. On 30 June 2025, management declared a surprise bonus which was not anticipated by the management and staff.

**e-Exam
Question
Number**

Question 3 cont.

14

(c) According to FRS 10 – *Subsequent Events*, the declaration of the bonus is a subsequent event. Explain:

(i) Whether it is an adjusting event or a non-adjusting event.

(2 marks)

(ii) How it should be reflected in the financial statements.

(2 marks)

The test of details performed on the samples of payroll have identified two errors of the wrong calculation of CPF payable resulting in underpayment of CPF contributions. For new employees who joined Payserve & Co in April 2025, the wrong birth dates were keyed in when creating the employee master file. This led to lower contribution rate being used to calculate the CPF contributions.

**e-Exam
Question
Number**

Question 3 cont.

Underpayment of CPF contributions is non-compliance of CPF Act, i.e. non-compliance with law and regulations (NOCLAR).

15

- (d)** Recommend three specific actions that management should carry out to rectify the non-compliance.

You do not need to consider the correction of the misstatements in the financial statements.

(3 marks)

16

- (e)** Consider the implications of the NOCLAR on the financial statements, i.e. which account balances could be overstated or understated.

(4 marks)

(Total: 25 marks)

Question 4 – (a) and (b)

You are an audit manager who is responsible for the audit of financial statements of XYZ Pte Ltd (XYZ) for the year ended 30 April 2025.

The management of XYZ has drafted the following paragraphs to be included in the notes to the financial statements under the heading of “Going Concern”:

The Company incurred a net loss of \$4,725,000 and net cash used in operating activities of \$1,046,000 for the year ended 30 April 2025, and as of that date, the Company’s current liabilities exceeded its current assets by \$17,010,000. As at 30 April 2025, the Company’s current liabilities amounted to \$20,250,000, which mainly consisted of bank borrowings amounting to \$17,826,000 due on demand or latest by 30 April 2025.

The above constitutes events or conditions which indicate the existence of material uncertainties which may cast significant doubt as to whether the Company will be able to continue as a going concern for the next 12 months.

The following are the management’s actions to address the above issue:

- To issue new shares by a placement exercise to raise gross placement proceeds of \$2,000,000.
- To obtain a loan of \$3,000,000 from a shareholder.
- To sell non-core assets, i.e. an investment property carried at cost of \$10,000,000 for \$15,000,000.
- To reduce salary of management and staff at all grades and save annual cost of \$500,000.
- To make 20 employees redundant and save annual cost of \$800,000 (net of the redundancy compensation).

As employees are not members of any trade union and their employment contracts do not include redundancy compensation, the management will be working out a voluntary redundancy compensation for employees to be made redundant.

Management believes the cash raised from the above actions would be sufficient to repay the loan and provide working capital for the next 12 months.

Management has started carrying out the above action plan. However, the outcomes of the above actions will not be known by the date of the auditor's report.

**e-Exam
Question
Number**

Question 4 required:

When events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, i.e. material uncertainty, are identified, SSA 570 (Revised) *Going Concern* requires the auditors to perform additional procedures, including evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.

17

(a) Describe the audit procedures to be performed on the actions taken by the management to address the going concern issues:

(i) Share issue

(3 marks)

(ii) Loan from a shareholder

(3 marks)

(iii) Sale of an investment property

(4 marks)

(iv) Salary reduction

(3 marks)

(v) Redundancy programme

(3 marks)

18

(b) Describe an audit opinion to be issued, assuming the disclosure is evaluated by the audit partner as appropriate. Your answer should include:

(i) An appropriate audit opinion, including your justification.

(3 marks)

(ii) An explanation where the material uncertainty arises from.

(2 marks)

(iii) A discussion on whether an Emphasis of Matter (EOM) paragraph or a Material Uncertainty Related to Going Concern (MUGC) paragraph should be added to the audit report.

Your answer should include:

- A justification of the inclusion of either EOM or MUGC. You are NOT required to explain why the other option is not appropriate (1 mark).
- A brief description of the content of your chosen option, i.e. EOM or MUGC (3 marks).

(4 marks)

(Total: 25 marks)

END OF PAPER

Appendix A

What are the CPF contribution rates?

The following table summarises the current contribution rates for Singaporeans and SPRs (from third year and onwards) across the different age groups.

| Employee's age (years) | Contribution rates from 1 January 2024 (monthly wages > \$750) | | |
|---------------------------|---|----------------------------|----------------------|
| | By employer (% of wage) | By employee (% of wage) | Total (% of wage) |
| 55 and below | 17 | 20 | 37 |
| Above 55 to 60 | 15 | 16 | 31 |
| Above 60 to 65 | 11.5 | 10.5 | 22 |
| Above 65 to 70 | 9 | 7.5 | 16.5 |
| Above 70 | 7.5 | 5 | 12.5 |

What is the Ordinary Wage (OW) ceiling?

The **Ordinary Wage (OW) ceiling** limits the amount of OW that attract CPF contributions in a calendar month for all employees. It will be gradually raised to \$8,000 by 2026. The increase takes place in four steps, as shown in the table below, to allow employers and employees to adjust to the changes.

Table: Changes in CPF salary ceilings

| | CPF Ordinary Wage ceiling | CPF annual salary ceiling |
|--------------------------------|---------------------------|---------------------------|
| From 1 Jan 2016 to 31 Aug 2023 | \$6,000 | \$102,000 (no change) |
| From 1 Sep to 31 Dec 2023 | \$6,300 (+\$300) | |
| From 1 Jan to 31 Dec 2024 | \$6,800 (+\$500) | |
| From 1 Jan to 31 Dec 2025 | \$7,400 (+\$600) | |
| From 1 Jan 2026 | \$8,000 (+\$600) | |

RECTIFICATION

Self-rectifying errors made in CPF contributions

1

CPF contributions not paid or underpaid

You will need to rectify any omission or underpayment of CPF contributions immediately. You can submit these CPF contribution arrears in the same way that you submit your monthly CPF contribution submissions for your employees.

If you do not rectify errors as soon as possible, you will incur higher late payment interest on the outstanding CPF contributions.



Appendix B – Common verbs used by the Examiners

| Verb | Description |
|------------------|---|
| 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. |
| Evaluate | Pass judgment on or provide your opinion based on the facts at hand. When making an evaluation , there are often predetermined criteria that you will use to base your opinion on. The key here is to give your opinion or make a judgment of the facts, but providing just a description of the facts is insufficient. Professional judgment and scepticism (a questioning mind) are called for when making an evaluation . Examine and Evaluate have similarities. |

| 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> |
| Quantify | <p>Provide a <u>numerical value</u> (an exact calculation) or a <u>range of values</u> (upper/lower limits, average, likely values, etc.). For instance, “Quantify the misstatement in the ‘investment in subsidiary’ in the Statement of Financial Position” or “Quantify the adverse direct materials variance cost”. As with calculate and compute, you should always show your workings and crosscheck your numbers.</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> |