

Singapore CA Qualification (Foundation) Examination

5 December 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)

Safe Express (SE) is a listed bus company operating a fleet of thirty buses. SE uses internal combustion engine (ICE) buses for its transportation business. SE charts its buses out to companies to transport their workers to and from their dormitories and worksites. You are the audit manager planning the audit of SE for the year ending 31 December 2024.

As part of the Singapore Green Plan 2030 released in February 2021, the government has introduced various green initiatives and measures such as requiring all new car registrations to be of cleaner-energy models from 2030.

The Board of Directors of SE approved the following business plan and budget for year 2025 in January 2024:

1. Purchase new fleet of 30 electric buses to replace the current fleet of ICE buses: 50% by 2026 and the remaining 50% by 2029. For the purpose of depreciation, out of the current fleet of 30 buses, 15 of them have remaining useful life till 2026 and the other 15 buses have remaining useful life till 2031. Tender for the electric vehicles will be called in the 2nd quarter of year 2025.
2. Build 3 electric charging stations. The tender contract has been awarded to Fastcharge Pte Ltd on 31 December 2024. The construction will commence after the tender for the new electric buses is awarded, scheduled to be in the 3rd quarter of year 2025.
3. By 1 December 2024, serve notice to terminate the ICE bus maintenance contract with XVX Engineering by year 2029. The contract provides for the maintenance of the 30 ICE buses till 31 December 2032. The Finance Manager will lead the team to negotiate early termination compensation with XVX Engineering.
4. By 1 December 2024, cancel the order placed for 15 ICE buses with ABM Motors and forfeit the partial payment made on 1 January 2024. These 15 new ICE buses were supposed to be delivered by end of year 2026. According to the contract, the

partial payment made will be forfeited if the cancellation is made and mutually agreed before 31 December 2024. The cancellation was agreed by ABM Motors on 30 December 2024.

SSA 315 (Revised 2021) requires the auditor to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.

**e-Exam
Question
Number**

Question 1 required:

2

(a) In relation to the four business plans stated above, identify and explain the risks of material misstatements at the assertion level:

(i) The depreciation of the current fleet of 30 ICE buses.
(3 marks)

(ii) The award of the building of the 3 electric charging stations.
(3 marks)

(iii) The notice to terminate the contract with XVX Engineering.
(3 marks)

(iv) The cancellation of the order of 15 ICE buses with ABM Motors.
(3 marks)

(v) The impairment of the current fleet of 30 ICE buses.
(3 marks)

For each of the above, your answer should include how each of them should be recognised and/or disclosed in the FY2024 financial statements and how their recognition or disclosure could be misstated.

**e-Exam
Question
Number**

Question 1 required:

3

(b) For each of the following events, identify and explain **FOUR** audit procedures to be performed on:

(i) The early termination of contract with XVX Engineering.

(4 marks)

(ii) The cancellation of the order of 15 ICE buses with ABM Motors.

(4 marks)

SSA 700 (Revised) requires that the auditor shall communicate key audit matters in the auditor's report for audits of complete sets of general purpose financial statements of listed entities.

**e-Exam
Question
Number**

Question 1 required:

4

(c) Explain why the impairment of ICE buses could be considered as a key audit matter.

(2 marks)

(Total: 25 marks)

Question 2 – (a), (b), (c) and (d)

Shopaholic Pte Ltd (SPL) is an e-commerce platform. Its competitors are Shopee and Lazada. SPL's financial year end is 30 September 2024.

Most of the employees of SPL are in the IT division, providing website maintenance, integration support with seller-partners, payment-partners and cybersecurity. These 30 employees in the IT division are paid a fixed monthly salary and a variable cash bonus which is a total of 0.5% of the sales transactions processed by the Shopaholic platform. The 30 IT staff share the cash bonus equally regardless of role or length of service with SPL. The cash bonus is computed monthly after the month-end closing is completed. For example, February sales are computed after the closing of February books in March and the cash bonus is computed in March. The payroll department processes the payment of cash bonus in mid-month, separately from the payroll run for monthly salary. IT staff who resigned will not be entitled to the cash bonus with effect from their resignation date.

The Human Resources (HR) department notifies the payroll department of staff changes such as new hires, termination, resignation, pay adjustment and promotion, using a sequentially numbered HR Master Form (HRMF) which is e-signed by the Head of the HR department.

An extract of the monthly fixed salary report is as follows:

Staff ID	Staff Name	Gross salary \$	CPF – employee \$	Net salary \$
007	James	8,000	1,360	6,640
008	Tom	7,000	1,360	5,640
010	Jerry	6,000	1,200	4,800

The payroll accountant types out a bank payment list to instruct the bank for transferring cash from the company's current account to the employees' personal bank accounts. An extract of the bank payment list is as follows:

Staff Name	Bank Account Number	Amount \$
James	008-012-345-1	6,640
Tom	339-209-744-7	5,640
Jerry	713-641-424-2	4,800

A cash bonus spreadsheet is prepared by the payroll staff as follows:

Period	Total Sales \$	Cash bonus rate	Cash bonus	Cash bonus per IT staff
February 2024	600,000	0.5%	3,000	100

**e-Exam
Question
Number**

5

Question 2 required:

(a) Describe the test of details to be performed:

(i) To confirm all employees are included in the payroll calculation. **(2 marks)**

(ii) To confirm the employees included in the payroll calculation are bona fide employees. **(3 marks)**

(iii) To confirm all employees in the payroll calculation are included in the bank payment list. **(2 marks)**

(iv) To confirm the employee's CPF contribution is correctly determined. **(3 marks)**

(v) To confirm employees who resigned do not continue to be paid after their last date of employment. **(2 marks)**

In August 2024, the management of SPL approved and announced a plan to downsize the IT department. 15 of the IT staff will be made redundant. Their last day will be 28 February 2025. A redundancy payment plan is announced. For every year of service with SPL, a redundancy payment equivalent to half-month salary will be paid. Employees made redundant must remain in SPL employment till 28 February 2025 to be entitled the payment. These details are communicated to the affected staff through a redundancy notice letter handed to them in the interview sessions held by the HR department.

An example of the redundancy payment calculation is as follows:

Staff ID	Salary in August 2024 \$	Years of service with SPL	Redundancy payment
007	8,000	2	8,000
008	7,000	1	3,500

The management of SPL plans to disclose the redundancy and the redundancy payment in a disclosure note in the FY2024 financial statements. The redundancy payment will be recognised in the FY2025 financial statements.

**e-Exam
Question
Number**

Question 2 required:

- 6** **(b)** Evaluate whether the above accounting treatment of the redundancy payment is appropriate.
- (3 marks)**
- 7** **(c)** Describe the audit procedures to be performed
- (i)** To confirm all staff who are included in the redundancy payment calculations are bona fide employees.
- (2 marks)**
- (ii)** To confirm the redundancy payment for each affected staff is correctly determined.
- (3 marks)**
- (iii)** To confirm that a present obligation to pay redundancy payments exists at 30 September 2024.
- (2 marks)**

After announcing the redundancy payment, in September 2024, SPL's management met with government officials from the Ministry of Manpower and representatives from the National Trade Union Congress on the assistance rendered to affected employees. SPL's management subsequently announced, in October 2024, the increase of redundancy payments from a half-month to a full month salary for each year of service.

**e-Exam
Question
Number**

Question 2 required:

8

(d) Discuss whether the announcement in October 2024 is an adjusting event or non-adjusting event in accordance with SFRS(I) 1 - 10 *Events After Reporting Date* and how it should be reflected in the FY2024 financial statements, i.e. whether any figures should be adjusted.

(3 marks)

(Total: 25 marks)

Question 3 – (a) to (f)

PCK Pte Ltd (PCK) is a provider for equipment leasing services. PCK leases crane equipment such as mobile cranes, crawler cranes, etc. to construction companies. PCK charges its customers daily rates for a flexible duration and customers can return the leased equipment on a 24-hour notice. Its financial year end is 31 December 2024.

You are the audit assistant assigned to audit the fixed assets Property, Plant and Equipment (PPE) of PCK. There are two main categories of PPE:

- Crane equipment
- Office/computer equipment

Crane equipment is depreciated on a straight-line basis over 10 years.

Office/computer equipment is depreciated on a straight-line basis over 5 years.

You have obtained a listing of new crane equipment acquired during the year, i.e. the crane addition listing. There are 5 new crane equipment purchased during the year; each costing US\$98,000 (inclusive of purchase price of US\$97,000 and pro-rated shipping charge of US\$1,000) and were each recorded in the fixed asset register at a cost of S\$132,000. The new crane equipment is imported from a supplier in China, delivered in one shipment and billed in one invoice (with the shipping charge inclusive). Three of the new crane equipment were immediately leased out to customers and two are stored in the company's vehicle park in Tuas.

You have obtained a listing of new office/computer equipment acquired during the year, i.e. office equipment addition listing. There are 30 new computers purchased for use by PCK's operations and warehouse staff. Each computer costs S\$2,000 and all are supplied by LXiang Singapore in one contract and billed in one invoice.

Your firm's methodology for selecting fixed assets additions for tests of details is:

- An item with cost above the performance materiality is selected.

- For items with individual cost below the performance materiality, a random sample of 50% of the total items is selected.

The performance materiality is set at S\$50,000 for this year's audit.

All the new fixed assets additions remained unpaid for as at year end.

**e-Exam
Question
Number**

Question 3 required:

9

- (a)** Determine how many of the new crane equipment and how many of the new computers will be selected for test of details. Your answer should include the justification for the number selected.

(4 marks)

10

- (b)** Describe the tests of details to be performed:

- (i)** To verify that the cost of the new computer is S\$2,000 each.

- 1 mark for verifying the total cost
- 1 mark for verifying the unit cost

(2 marks)

- (ii)** To verify that the cost of the new crane equipment is S\$132,000 each.

- 1 mark for verifying the unit cost
- 1 mark for verifying the total shipping charge
- 1 mark for verifying the shipping charge per unit
- 1 mark for the appropriateness of the exchange rate used or foreign currency translation by PCK

(4 marks)

	<p>(iii) To confirm the existence of the new crane equipment that is leased to customers.</p> <ul style="list-style-type: none"> • 1 mark for each test of details <p style="text-align: right;">(2 marks)</p>
<p>11</p>	<p>(c) Evaluate PCK's accounting treatment of the shipping charges for the new crane equipment acquired. Your answer should include justification of your conclusion.</p> <p style="text-align: right;">(3 marks)</p>

When performing the tests of details to verify the depreciation charges of the new additions, you discovered that the depreciation charges were wrong. Your investigation showed that the wrong calculation was due to the wrong depreciation rates entered into the fixed asset register which is maintained in a Microsoft Excel spreadsheet. The wrong depreciation rates only affected the new fixed assets acquired during the year. New crane equipment were depreciated over 100 years and new computer equipment were depreciated over 50 years.

e-Exam Question Number	Question 3 required:
<p>12</p>	<p>(d) Assuming that all the new additions were acquired on 1 January 2024:</p> <p>(i) Quantify the actual misstatements of the depreciation charge of the new crane equipment.</p> <p style="text-align: right;">(2 marks)</p> <p>(ii) Quantify the projected misstatements of the depreciation charge of the new computers.</p> <p style="text-align: right;">(3 marks)</p>

**e-Exam
Question
Number**

13

Question 3 required:

- (e) Assuming the misstatements are evaluated to be immaterial and are uncorrected:
- (i) State the effect of the misstatements on the audit opinion to be issued. **(1 mark)**
 - (ii) Explain how the uncorrected immaterial misstatements should be reflected in the written represented letter to be obtained from PCK's management.

(1 mark)

In the discussion of audit fee, PCK's management suggests changes to the audit fee arrangement and that the audit fee to be linked to the efficiency of the audit. If the audit is efficient, a higher fee would be paid. PCK's management suggests to pay a fee representing a 10% increase over last year's fee if the audit is completed two weeks early.

**e-Exam
Question
Number**

14

Question 3 required:

- (f) Discuss the ethical threat arising from the proposed fee arrangement and conclude whether the proposed fee arrangement is acceptable.

(3 marks)

(Total: 25 marks)

Question 4 Case A – (a) to (e)

Merlin Academy (MA) is a private education provider in Singapore, specialising in providing tuition classes for students pursuing undergraduate studies in the hospitality sector. MA partners with overseas universities and prepare their students to take examinations from these universities. The financial year end of MA is 31 December 2024.

70% of MA's students are from overseas, i.e. international students who require a Student's pass issued by the Immigration and Checkpoints Authority (ICA). To apply for the Student's pass, a foreigner must first have been accepted by an educational institution to pursue full-time studies in Singapore. Students register by completion of a sequentially numbered registration form and receive a course enrolment acceptance letter which is also sequentially numbered.

MA runs each of its education programmes over a two-year period. Classes are conducted in the first three weeks of each month and the fourth week is the recess week. To enrol for a course in MA, students are required to pay 10% of the course fee upfront. This 10% fee is not refundable, even for international students who fail to obtain a Student's pass from the ICA. The remaining fee, i.e. 90% of the course fee that is to be paid when the course commences, is also not refundable.

A sales invoice is generated for the course fee paid by the students. Payment is by PAYNOW only (an online funds transfer service). The system automatically posts the invoice to the ledger as sales revenue.

MA is owned by two shareholders who are the two Directors in the Board. However, they leave the daily management of MA to a General Manager, James Koo. James is supported by a Book-keeper, Philip, and an Operations Executive, Goh. MA engages four part-time tutors who are paid by the hour for the delivery of the tuition classes.

**e-Exam
Question
Number**

Question 4 Case A required:

15

(a) Describe **ONE** main risk of material misstatement at assertion level affecting the sales revenue account. Your answer should include:

- How the cash received from the students should be recognised in the financial statements;
- How revenue should be recognised at a point in time or over time; and
- Whether the misstatement relates to overstatement or understatement of sales revenue and/or other accounts.

(3 marks)

16

(b) Describe the tests of details to be performed to confirm:

(i) All course fees are collected. **(1 mark)**

(ii) The courses are conducted and thus the revenue is earned. **(1 mark)**

When performing test of details on the sales transactions, the auditor of MA discovers that there are monthly reversals of sales revenue through journal entries posted by James Koo, i.e. Dr sales revenue Cr cash at bank.

The auditor traced the credit of cash at bank to withdrawal from the bank account via ATM. Philip confirmed that James Koo is the sole bank signatory and is the sole custodian of the ATM card.

When asked, James Koo explained that the reversal was for refunds of the cash received from students. Despite MA's policy of no refund under any circumstances, James approves the refund on a case-by-case basis. An exceptional situation would be as such, when an international student has to terminate the classes and return home due to urgent family emergency.

**e-Exam
Question
Number**

Question 4 Case A required:

17

(c) Suggest **THREE** reasons why the auditor may find the reason for the sales reversals given by James Koo to be suspicious.

(3 marks)

18

(d) Describe the audit procedures to be performed to confirm:

(i) The refund is paid to the person who applied for the refund.

(1 mark)

(ii) The person who applied for the refund is a legitimate student.

(1 mark)

19

(e) Discuss who the auditor should communicate with if this is a suspected misappropriation of cash by James Koo.

(2 marks)

(Total: 12 marks)

Question 4 Case B – (a) to (e)

World East Pte Ltd (WEPL) was incorporated in 2023. WEPL's principal activity is stated to be wholesalers of parts and accessories for vehicles, i.e. buying products in bulk from producers and selling them in smaller quantities to retailers. The only shareholder is a foreign national residing overseas. The only Director, Alton J., is an owner of a corporate secretarial services firm. He agreed to be a nominee Director for an annual retainer fee. Alton takes instruction from the shareholder through the Telegram mobile application to set up a bank account with a local bank, Bank X.

Between 1 April and 31 May 2024, \$400,000 was deposited via six transfers into the company's bank account from various third-party bank accounts in Singapore, Austria, Sudan and Canada. Acting on the instruction from the shareholder, Alton transferred \$390,000 out to various third-party bank accounts in China, Morocco, the United States, Geneva, Abu Dhabi and Hong Kong.

During this time, Alton received seven notices from Bank X to recall the six deposits of \$400,000 in total. He told the shareholder to deal with the notices, but the shareholder did not reply.

Alton was subsequently convicted for his negligence in allowing the bank account of a company - of which he was a nominee Director - to be used for money laundering. The transfers of the six deposits were considered stolen as the victims involved had been tricked into depositing the money into the bank account.

There are three stages of money laundering, namely, (1) placement, (2) layering and (3) integration.

Placement is the process of disposing the proceeds from drug trafficking or criminal conduct, for example by transferring the illegal funds into the financial system in a way that financial institutions and government authorities are not able to detect.

Layering is the process of generating a series or layers of transactions to distance the proceeds from their illegal source and to obscure the audit trail.

Integration, the final money-laundering stage, is the unnoticed reinsertion of successfully laundered, untraceable funds into an economy.

**e-Exam
Question
Number**

Question 4 Case B required:

20

(a) In relation to the above deposits and withdrawals, explain which is the most likely stage of the money laundering.

Your answer should include:

- An appropriate conclusion
- A justification supporting the conclusion (e.g. why it is the placement stage)
- An explanation why it is not the other stages (e.g. why it is not the layering stage)

(3 marks)

21

(b) Describe the normal audit procedures to be performed on the \$400,000 of bank deposits and the bank withdrawal of \$390,000.

Your answer should include:

- 2 procedures relating to the bank deposits
- 2 procedures relating to the bank withdrawal

(4 marks)

22

(c) Explain how the auditor might, through the performance of the audit procedures **stated in your answers in part (b)** above, suspect these money transfers could be related to money laundering.

(2 marks)

23

(d) Explain whether the auditor should report these suspicious transactions to the authorities.

(2 marks)

**e-Exam
Question
Number**

Question 4 Case B required:

24

- (e) Explain whether the auditor should discuss with Alton and the shareholder to confirm whether these are money laundering transactions.

(2 marks)

(Total: 13 marks)

END OF PAPER

Appendix A – 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.

Verb	Description
Evaluate	<p>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.</p>
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>