



Singapore CA Qualification (Foundation) Examination

8 December 2022

Assurance

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **3 hours 15 minutes**.
2. This examination paper has **FOUR (4)** questions and comprises **NINETEEN (19)** 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 SAC's regulations. Please note that watches, 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 Singapore Accountancy Commission.

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 6100 0516

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

Question 1 – (a), (b), (c) and (d)

You are an audit senior of Reasonable Assurance LLP, a public accounting firm. You are assigned to audit the financial statements of ABC Pte Ltd (ABC) for the financial year ended 31 December 2022. You are also mentoring an intern, Titan Tai, assigned to the audit engagement team. Titan has several questions about the audit and has sought your help for clarification.

Titan has read about substantive analytical procedures and final analytical procedures in SSA 520 *Analytical Procedures*. He has also read about preliminary analytical procedures in SSA 315 (Revised 2021) *Identifying and Assessing the Risks of Material Misstatement*. However, he is not sure about the differences between:

- Preliminary analytical procedures
- Substantive analytical procedures
- Final analytical procedures

**e-Exam
Question
Number**

2

Question 1 required:

- (a)** For each of the above 3 types of analytical procedures:
- (i)** State whether each of these analytical procedures is mandatory, i.e. required by the Singapore Standards on Auditing (SSA) (you are not required to quote the number and title of the SSA). **(3 marks)**
 - (ii)** State at which stage of the audit process each of the analytical procedures will be performed. **(3 marks)**
 - (iii)** State their objectives. **(3 marks)**

Question 1 required:

(b) For each of the trend and ratio analysis stated below:

- Gross profit margin has increased from 30% in prior year to current year's 50%.
- Inventory holding period has increased from 90 days in prior year to 150 days in current year.
- Average payables payment days have reduced from prior year's 60 days to this year's 25 days.
- Average receivables collection days have increased from prior year's 40 days to this year's 62 days.
- Interest cover has increased from 1.0 times in prior year to 1.5 times in current year although profit is about the same as last year's profit.
- Quick ratio has increased from 1 in prior year to 2 in current year.

(i) Provide an example of a business reason that could cause the above change. [**Note:** 1 mark for each trend/ratio]

(6 marks)

(ii) Explain one risk of material misstatement that the above change could indicate. [**Note:** 1 mark for each trend/ratio]

(6 marks)

Present your answers to **(i)** and **(ii)** in the following format:

Trend/ Ratio Analysis (e.g. Gross profit margin increased from 30% in prior year to current year's 50%)

(i) Business reason

(ii) Risk of material misstatement

The auditor is required to determine a materiality level for the financial statements as a whole (hereafter known as materiality level).

The materiality level for the audit of ABC's financial statements for 31 December 2022 has been determined to be \$200,000 during audit planning in October 2022. This was determined as follows:

- Recorded revenue from January to September 2022 = \$16,000,000
- Forecast revenue from October to December = \$4,000,000
- Materiality level = $(\$16,000,000 + \$4,000,000) \times 1\% = \$200,000$

During the final audit, the actual revenue for the year recorded in the books was \$18 million. An overstatement of revenue by \$1 million was detected during the audit. After accounting for the overstatement, the adjusted revenue was \$17 million. There was another error resulting in an understatement of expenses of \$179,000.

**e-Exam
Question
Number**

Question 1 required:

4

- (c)** Using the above information, determine the final materiality level, assuming there are no other issues except the overstatement of revenue and the understatement of expenses.
(2 marks)

5

- (d)** Evaluate whether the understatement of expenses of \$179,000 is material.
(2 marks)

(Total: 25 marks)

Question 2 – (a) and (b)

You are the audit manager responsible for the audit of the financial statement of XYZ Pte Ltd (XYZ) for the year ending 31 December 2022. You are conducting a briefing for the audit engagement team, including the audit procedures to be performed, the objectives of these audit procedures and the assertions to be verified.

e-Exam Question Number

6

Question 2 required:

- (a) Explain the purpose of each of the following audit procedures, including the assertions to be verified.
- (i) Obtain a listing of year-end inventory by products, compare the cost of a sample of these inventory items to the sales prices in the post year-end sales invoices.
(2 marks)
 - (ii) Obtain a listing of year-end inventory by products, compare the cost of a sample of these inventory items to the cost prices in the supplier invoices.
(2 marks)
 - (iii) Obtain a listing of year-end inventory by products, compare the dates of a sample of these inventory items recorded as received, to the dates of the associated goods received notes.
(2 marks)
 - (iv) Obtain a listing of year-end inventory by products, compare the quantity of a sample of these inventory items to the inventory count records.
(2 marks)

7

- (v) Select samples of inventory count records, agree the quantity in the inventory count records to the year-end inventory listing. **(2 marks)**
- (vi) Select samples of production machines in the fixed asset register and physically sight the production machines in the factory. **(2 marks)**
- (vii) Select samples of delivery vehicles parked in the warehouse carpark and trace their details to the fixed asset register. **(2 marks)**
- (viii) Physically visit an office building listed in the fixed asset register and see that it is used as the entity's sales office. **(2 marks)**
- (ix) Select samples of new office furniture and agree the costs in the fixed asset register to the supplier invoices. **(2 marks)**
- (x) Compare the remaining useful lives of fixed assets disposed to the useful lives used for determining depreciation charge. **(2 marks)**

When the audit engagement team arrived at the company's accounting department to commence fieldwork, the audit assistant, James, informed you that he is surprised to learn that, Philip, his army platoon mate during his full-time national service days, is working in the company's accounting department as a payroll clerk.

**e-Exam
Question
Number**

8

Question 2 required:

- (b)** Discuss the ethical issue involved and recommend an appropriate response to address the ethical issue.

(5 marks)

Note: Your answer should include the identification of ethical threat, an explanation of the ethical threat, and an evaluation of whether the ethical threat is significant.

(Total: 25 marks)

Question 3 – (a), (b), (c) and (d)

SML Pte Ltd (SML) is a phone-order B2B business selling imported tiles to renovation contractors and property construction firms. You are mentoring an intern assigned to the audit of SML's financial statements for the year ending 31 December 2022. As a training exercise, the intern has extracted the following internal control procedures from the system documentation in the audit permanent file:

- 1) Approved credit limits for each customer are stored in the customer master file. When the sales order clerks key in customer orders, orders that exceed the unutilised credit limit will not be accepted by the system. An error message will be displayed on the sales system indicating that the credit limit has been exceeded.

- 2) The system generates a goods delivery note (GDN) in sequential order number and a sales invoice report showing the GDN and the associated sales invoice. The accounts receivable supervisor reviews this report daily and signs on the report if each GDN has an associated sales invoice.

The intern has asked for explanations on a few matters relating to these controls. These form the basis of the following requirements:

**e-Exam
Question
Number**

9

Question 3 required:

(a) For control procedure (1) and control procedure (2) listed above:

(i) Describe the business benefit of each of the control procedures to the company.

(2 marks)

(ii) Explain a risk of misstatement that could be reduced, including the assertion affected.

(4 marks)

(iii) State a test of control that could be performed to verify whether the internal control procedure is operating effectively.

(2 marks)

You should present your answers in the following format:

Control 1 – Credit limit

- i. Business benefit
- ii. Risk of misstatement
- iii. Test of control

**e-Exam
Question
Number**

Question 3 required:

10

- (b)** Discuss the implications of internal control procedure (2) in terms of the **EXTENT** of test of details of transactions and account balances if the test of controls show that the internal control procedure (2) is not operating effectively.

(3 marks)

Note: Your answer should clearly describe the specific test of details that will be affected.

11

- (c)** Additionally, explain to the intern the purpose of the following audit procedures, including the assertions to be verified:

- (i)** Select samples of trade receivables at year end, trace to post year-end cash book and bank statement.

(2 marks)

- (ii)** Select samples of receipts from trade receivables recorded in post year-end cash book and bank statement, agree the details to year-end receivable ledger.

(2 marks)

- (iii)** Select samples of year-end trade receivables, agree details to customer orders, goods delivery notes and sales invoices.

(2 marks)

- (iv)** Select samples customer orders, trace details to goods delivery notes, sales invoices and receivables ledger.

(2 marks)

12

- (v) Review correspondence with customers to identify sales invoices that are disputed by customers.

(2 marks)

- (d) Describe TWO circumstances where the auditor may not want to perform test of controls. For each circumstance, provide one example.

(4 marks)

(Total: 25 marks)

Question 4 – (a), (b), (c) and (d)

Buytokil Pte Ltd (BPL) is a new audit client of BFGM LLP (BFGM), a public accounting firm. You are an audit senior assigned to audit BPL's financial statements for the year ended 30 November 2022. BPL manufactures cleansing detergents, which BPL claims can kill viruses such as COVID-19 for 48 hours.

You arrive at the manufacturing plant cum warehouse early morning on 30 November 2022 to carry out the following tasks:

- Supervise a team of audit assistants to attend BPL's year-end inventory count at the raw material warehouse, work-in-progress (WIP) in the manufacturing plant and finished goods in the finished goods warehouse.
- Sight samples of production machines.

BPL's inventory count supervisor, Tom, refuses to allow your team to observe the inventory count and perform test counts. Tom said that the management has specifically instructed him to only allow the counting staff from BPL entry to the manufacturing plant and warehouses during the inventory count. The reason given by BPL is to keep the secret ingredients used in the production confidential.

You have also been refused entry to the manufacturing plant. BPL claims that sighting the manufacturing plant and the WIP will also give away their trade secrets.

You immediately report the issue to the audit manager, Jerry, who says that it is not surprising as the predecessor audit firm had highlighted, in their response as part of the professional clearance process, the same issues they encountered in the prior year's audit.

The following figures are extracted from the draft financial statements (for the year ended 30 November 2022) prepared by BPL:

- Inventory – \$20 million
- Manufacturing plant and machines – \$70 million
- Total assets – \$100 million

**e-Exam
Question
Number**

Question 4 required:

13

(a)

- (i)** Using the above information, explain the timing and a purpose of the professional clearance process, i.e. BFGM writing to the predecessor audit firm.

(4 marks)

- (ii)** Explain ONE deficiency in your firm's professional clearance and ONE deficiency in audit planning, given the comment from the audit manager.

(4 marks)

14

- (b)** Assuming that there are no alternative procedures that can be performed as substitutes of the planned audit procedures given above, describe the implications of this issue on the auditor's report on the financial statements. Your answer should include:

- (i)** Describing the issue (i.e. whether the issue is that of misstatements, or potential misstatements, or significant going concern uncertainty, or a financial statement matter that requires emphasis).

(4 marks)

- (ii)** Determining whether the issue is material to the financial statements.

(2 marks)

- (iii)** Determining whether the issue is pervasive to the financial statements.

(2 marks)

- (iv)** The appropriate audit opinion to be issued.

(2 marks)

**e-Exam
Question
Number**

Question 4 required:

- 15** **(c)** Given the above issue, discuss whether your firm would consider re-appointment as auditor for the next financial year, i.e. 30 November 2023. **(3 marks)**
- 16** **(d)** Besides the source of information described by the audit manager, state TWO other sources of information that might enable your firm to find out the above issue prior to accepting appointment as auditor for the financial year ended 30 November 2022. **(4 marks)**
- (Total: 25 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	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”.
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.
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.
Identify	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.
Illustrate / Give examples	Illustrate requires you to provide an example, either from the facts given, a real-life example, or a made up example to illustrate the point you are trying to make. Illustrate and Demonstrate have similarities.
State	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.

**Propose/
Provide**

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 ...”.