

## Singapore CA Qualification Examination

5 December 2023

### 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 Appendices 1, 2, 3, and 4). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is an open book examination. During the examination, you are allowed to use your laptop and any calculators that comply with the ACRA's regulations. Please note that smartwatches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
4. During the examination, videos of you and your computer screen will be recorded for the purpose of ensuring examination integrity and you have consented to these recordings.
5. This examination paper and all video recordings of this examination are the property of the Accounting and Corporate Regulatory Authority.

#### MODULE-SPECIFIC INSTRUCTIONS:

6. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
7. Unless specified otherwise, assume that all the reporting entities in all the questions adopt, for all the relevant years, the Singapore Financial Reporting Standards (International) (SFRS (I)) that were issued by the Accounting Standards Council as at 1 January 2023.

#### 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\*\***

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1. Your question paper is attached under the "**Resources**" tab found at the bottom right of **EACH** question.
2. You may also download the question paper that allows annotation throughout your exam in Question 1 of the e-Exam portal.
3. Please download the relevant required Appendices in Question 1 of the e-Exam portal.

**Other important information:**

4. You will be allowed to access your reference materials but **will not be allowed** to communicate with anyone either physically or through any electronic means.
5. You are **NOT ALLOWED** to access any websites during the exam.
6. You are **NOT ALLOWED** to print the question paper.
7. **Please take note that your screen will be monitored throughout the examination. If you are found to have accessed any websites, or if you cheat or attempt to cheat, you will be liable to severe disciplinary action.**

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

+65 6865 9365

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

### **Question 1 – (a), (b) and (c)**

Cross State (CS) provides land cargo transport service. It owns a fleet of lorries of different sizes and provides point-to-point services within Singapore and various states in West Malaysia. Its financial year end is 31 December 2023.

Drivers are required to obtain customers' acknowledgement on a copy of the goods delivery notes and submit them to the finance department. For delivery to West Malaysia, drivers are also required to submit custom clearance documents to the finance department.

You are the audit senior assigned to carry out audit tests on drivers' allowance. All drivers are paid a fixed monthly salary and an allowance that is determined by the management. The payroll staff in CS uses a Microsoft Excel spreadsheet to calculate the drivers' allowance for each week (see Appendix 1). There is a weekly driver duty schedule such as the one shown in Appendix 4. Drivers usually work five days a week. Occasionally, some drivers may work six days a week. Drivers not included in the schedule are not assigned any driving duty. The management has issued an approved daily allowance list which shows the daily allowance rate for the drivers on assigned duty. This daily allowance list is not included in the Appendices. Drivers not assigned any driving duty on a specific day will not be entitled to the daily allowance. This allowance is paid weekly. A bank payment list (see Appendix 2) is prepared to instruct bank payment transfers. All employees are required to have a savings account with a local bank designated by the management. CPF deduction for the allowance is processed once a month when the fixed salary processing is performed. The Human Resources Department generates a weekly list of drivers employed by the company after updating any new hires during the week and removing any drivers who left the company the week before (see Appendix 3).

You have obtained the following spreadsheets to perform a trial of using data analytics to test drivers' allowance:

1. Appendix 1 – Weekly allowance calculation (for the 2nd week of October 2023);
2. Appendix 2 – Bank payment list (for the 2nd week of October 2023);
3. Appendix 3 – Driver list from the Human Resource Department; and
4. Appendix 4 – Driver duty schedule (for the 2nd week of October 2023).

**Appendix 1 – Weekly allowance calculation (for the 2<sup>nd</sup> week of October 2023)**

<b>Driver Staff ID</b>	<b>Days*</b>	<b>Daily Allowance (\$)</b>	<b>Gross Allowance (\$)</b>
1007	5	70	350
1008	5	70	350
1010	6	70	480
1011	6	70	420
1012	5	70	550
1015	5	70	350
1017	5	70	350
1021	5	70	350
1023	5	70	350
1028	5	70	350
1030	5	70	350
1031	5	70	350
1032	5	70	350
1035	5	70	350
1038	5	70	350
1041	5	70	350
1043	5	70	350
1047	5	70	350
1051	5	70	350
1052	5	70	350
1053	5	70	350
1057	5	70	350
1058	5	70	350
1060	5	70	350
1061	5	70	350
1062	5	70	350
1063	6	70	420

*\* This is compiled from drivers' daily duty schedule which records the number of days when the drivers deliver their assigned customer orders.*

## Appendix 2 – Bank payment list (for the 2<sup>nd</sup> week of October 2023)

Driver Staff ID	Bank Account Number	Amount (\$)
1007	6343726810	350
1008	6343736990	350
1010	6343787888	480
1011	6343787888	480
1012	6343771212	550
1015	6343752010	350
1017	6343762099	350
1021	6343763121	350
1023	6343731811	350
1028	6343721123	350
1030	6343791233	350
1031	6347922011	350
1032	6347933911	350
1035	6347931422	350
1038	6347945455	350
1041	6347944512	350
1043	6347949667	350
1047	6347951203	350
1051	6347967961	350
1052	6347991001	350
1053	6347991008	350
1057	6347992001	350
1058	6346992018	350
1060	6346992099	350
1061	6346693034	350
1062	6343701000	350
1063	6343787888	480

### Appendix 3 – Driver list from the Human Resource Department

1 <sup>st</sup> week of October 2023	2 <sup>nd</sup> week of October 2023	3 <sup>rd</sup> week of October 2023
Driver Staff ID	Driver Staff ID	Driver Staff ID
1007	1007	1007
1008	1008	1008
1010	1010	1010
1011	1012	1012
1012	1013	1013
1013	1015	1015
1015	1017	1017
1017	1021	1021
1021	1023	1023
1023	1028	1028
1028	1029	1029
1029	1030	1030
1030	1031	1031
1031	1032	1032
1032	1034	1034
1034	1035	1035
1035	1038	1038
1038	1041	1041
1041	1043	1043
1043	1047	1047
1047	1051	1051
1051	1052	1052
1052	1053	1053
1053	1055	1055
1055	1057	1057
1057	1058	1058
1058	1059	1059
1059	1060	1060
1060	1061	1061
1061	1062	1062
1062	-	1063

**Appendix 4 – Driver duty schedule (for the 2<sup>nd</sup> week of October 2023)**

<b>Driver Staff ID</b>
1007
1008
1011
1012
1015
1017
1021
1023
1028
1030
1031
1032
1035
1038
1041
1043
1047
1051
1052
1053
1057
1058
1060
1061
1062
1063



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**2**

**Question 1 required:**

- (a) Identify and explain **FIVE** issues that you would like to investigate further. **(15 marks)**

**Note 1:** For each issue identified, you should explain why you would want to investigate the issue further and identify **TWO** possible causes of the issue.

**Note 2:** If more than one transaction is identified for the same issue, it is considered as one issue for analysis. You are required to list down all the relevant transactions under the issue.

**Note 3:** 1 mark for the identification of the relevant issue and 1 mark for each possible cause of the issue.

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**Question 1 required:**

**3**

**(b)** Your analysis and an expanded scope investigation of the issues lead you to believe strongly that some of these transactions are fraudulent and the total amount is likely to exceed \$200,000. Discuss whether you would report the suspected fraud to the regulatory authority:

**(i)** If CS is a registered charity; or **(2 marks)**

**(ii)** If CS is a Singapore registered company listed on the Singapore Exchange (SGX); or **(2 marks)**

**(iii)** If CS is a Singapore registered private company that is family-owned with no external investor and/or finance provider. **(2 marks)**

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**(c)** State **ONE** audit procedure to be performed to:

**(i)** Verify that the daily allowance rate used in the allowance calculation is correct; and **(2 marks)**

**(ii)** Verify that the trips in the daily allowance calculation really occurred. **(2 marks)**

**(Total: 25 marks)**

## Question 2 – (a) to (g)

Namnam Travel (NT) is a travel agent. Its financial year end is 30 November 2023. It is nearing the completion of the financial statements audit for the year ended 30 November 2023. As the Audit Engagement Manager, you are reviewing the audit working papers. The materiality level is determined to be \$0.5m, which is 1% of total assets. The following matters were not identified during the planning stage that took place in July 2023.

On 30 November 2023, NT entered into a transaction with Manman Leasing (ML) to sell its head office building to ML and lease the head office building back for 30 years. NT is thus the seller-lessee and ML is the buyer-lessor.

Audit procedures have been performed on the transactions and the details of the arrangement verified are:

- The sales proceeds are \$40m in cash which is the fair value of the office building;
- Ownership will only be transferred if the seller-lessee defaults in payment;
- Seller-lessee remains responsible for the repair, maintenance, insurance, and property tax;
- Seller-lessee retains the right to use the building and the seller need not request permission from the buyer to carry out building improvements;
- The monthly lease payment is \$180,000 in arrears; the first payment will be due on 31 December 2023;
- NT's incremental borrowing rate is 3.6% per year;
- A right-of-use asset and a lease liability of \$43.99m are recognised on 30 November 2023; and
- A gain on profit on disposal of \$2m is recognised on the sale of the building.

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**Question 2 required:**

- 5** (a) Explain whether the above transaction is a sale and leaseback transaction. **(4 marks)**
- 6** (b) Explain how the lessee-seller should account for the “sales proceeds” and the building if the transaction is not a sale and leaseback transaction. **(2 marks)**
- 7** (c) State the adjusting entries to correct the accounting error based on the conclusion that the transaction is not a sale and leaseback transaction. **(5 marks)**

After your explanation to the management, the above issue is resolved and satisfactorily accounted for. However, there are other uncorrected misstatements which the management believes are immaterial and do not need to be corrected:

- (1) Overstated \$0.6m revenue and \$0.6m trade receivables due to cut-off error. (Trade receivables are presented as Trade and Other Receivables on the face of the statement of financial position.)
- (2) Overstated \$0.25m of other income due to recognising government grant not yet received as other income and grant receivable of \$0.25m before grant conditions are satisfied. (Grant receivables are presented as Trade and Other Receivables on the face of the statement of financial position.)
- (3) Understated \$0.26m of operating expenses due to an error in recording the amount paid to suppliers for expenses incurred as prepayment. (Prepayment is presented as Trade and Other Receivables on the face of the statement of financial position.)

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**Question 2 required:**

- |          |   |
|----------|---|
| <b>8</b> | <p>(d) Quantify each misstatement and evaluate whether <b><u>each</u></b> of the THREE misstatements is individually material.</p> <p style="text-align: right;"><b>(3 marks)</b></p>   |
| <b>9</b> | <p>(e) Assuming that misstatement (1) is corrected by management, evaluate whether <b>misstatements (2) and (3)</b> are material in aggregate. You should quantify the misstatements in aggregate.</p> <p style="text-align: right;"><b>(3 marks)</b></p> |

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**Question 2 required:**

**10**

**(f)** Propose and justify an appropriate audit opinion on the financial statements:

**(i)** If none of these misstatements were corrected; and  
**(4 marks)**

**(ii)** If misstatements (1) and (2) were corrected and misstatement (3) remained uncorrected.

**(2 marks)**

You should quantify the misstatements in your answer.

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**(g)** Assuming that management has corrected misstatements (1) and (2), describe the written representations that should be obtained from management regarding the uncorrected misstatements.

**(2 marks)**

**(Total: 25 marks)**

### **Question 3 – (a), (b), (c) and (d)**

Charlie 180 Pte Ltd (C180) is a start-up company. Its founder and the sole director and sole shareholder, Charlie, approached your firm to audit C180's second year's financial statements for the year ending 30 November 2024. Today is 18 December 2023. Its first financial statements for the year ended 30 November 2023 were not audited as C180 met and continues to meet the conditions to be exempted from audit. Charlie believes an audit is beneficial as C180 may approach some banks to borrow loans. He believes it is important to show a decent profit to secure loans from the banks.

C180 is a video production company that provides video production services to cover corporate events, weddings, products webcast for influencers, etc.

C180 hires freelancers as its video production crew and pays them on a project basis. Freelancers are required to send an invoice for their fees after the project is completed. C180 maintains a project file for each customer's contract which contains all associated source documents, such as contracts with customers, sales invoices and invoices from freelancers.

C180 rents a shared-office space on a yearly rental arrangement with a shared-office operator – Co-Work, which invoices C180 at \$1,000 per month at the beginning of each month.

Charlie leases all its video production equipment, on a two-year lease, from Fixed Leasing Company (FLC).

C180 outsources the bookkeeping for accounting to a small accounting firm – Simply Accounting (SA), for a monthly fee of \$200. Charlie scans and emails SA the bank statements, sales invoices, and invoices from its freelancers, Co-Work, FLC and other suppliers. Sales invoices and supplier invoices are emailed to SA when the cash flow occurred, i.e., when trade receivables are collected, and supplier invoices are paid. SA records the sales invoices and supplier invoices based on the date they received the scanned documents from C180. Sales invoices are posted to the cash at bank

account and the revenue account. Supplier invoices are posted to the cash at bank account and the various expense accounts depending on the nature of the supplier invoices, including the invoices from FLC. As Charlie is the only employee of the company, Central Provident Fund (CPF) is payable only on the wages of Charlie. Charlie pays the monthly CPF contributions to the CPF Board four days after each month's end using PayNow. He scans the CPF payment acknowledgement and forwards it to SA for recording.

C180 maintains one current account with a local bank. All bank transactions, i.e., collection from customers and payment to freelancers and suppliers, are via electronic bank transfer. SA performs a bank reconciliation on a monthly basis.

A typical video production, starting from conceptualisation to recording and post-recording editing, takes about a month. C180 collects 20% of the contracted fee upfront before starting work on the project. The remaining 80% is billed after the handover of the video to the customers.

Charlie gives himself a fixed salary of \$5,000 per month (an increase of \$1,000 from last year), payable on the 28th of the month. As with other cash collections and payments, SA records the salary transaction and the CPF payment based on payment dates.

Charlie believes that the first year's financial statements, which showed net loss before tax and net loss after tax, were not presented in accordance with the Singapore Financial Reporting Standards (SFRS). This is because SA does not provide a service to prepare financial statements and so Charlie prepared the financial statements himself to the best of his ability. For the second year's financial statements and future financial statements, Charlie requests your firm to prepare the financial statements to be in compliance with SFRS.



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**Question 3 required:**

Assuming that Charlie continues to prepare the financial statements for financial year 2024, besides the risk of material misstatements to the opening balances:

- 12**      **(a)** Identify and explain **TWO** risks of material misstatements at the financial statement level. **(4 marks)**
- 13**      **(b)** Evaluate the risk of material misstatements at the assertion level in relation to:
- (i)** Revenue recognition and measurement; **(4 marks)**
  - (ii)** Leases of video production equipment; **(2 marks)**
  - (iii)** Leases of office space; **(2 marks)**
- 14**      **(iv)** CPF payments; **(2 marks)**
- (v)** Freelancer costs; and **(2 marks)**
  - (vi)** Cash at bank. **(2 marks)**

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**15**

**Question 3 required:**

(c) In relation to the provision of the financial statement's preparation service:

(i) Identify and explain an ethical threat arising; and  
**(2 marks)**

(ii) Describe an appropriate safeguard to reduce the ethical threat to an acceptable level.  
**(2 marks)**

Charlie also requests that your firm select the appropriate accounting policies for C180.

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**Question 3 required:**

(d) Explain how your firm should respond to this request.

**(3 marks)**

**(Total: 25 marks)**

#### Question 4 – (a) to (h)

The Parental Point Group (the Group) is a new audit client of your audit firm, DEKP LLP. The Group consists of:

- The parent company – Parental Point Pte Ltd (PP).
- Subsidiary 1 – Sure One Pte Ltd (S1); which in turn has an investment in associate, Ariel One Pte Ltd (A1).
- Subsidiary 2 – Sun Two & Co (S2); the total assets of S2 contributed to 20% of the Group's total assets.
- Subsidiary 3 – See Tree & Co (S3); which has been a dormant company for two years. No business activities were carried out.

*Companies Act states that a company is dormant during a period in which no revenue, expenses, or movements in assets, liabilities and equity were recorded, except for certain transactions such as the appointment of a secretary of the company, the appointment of an auditor, the maintenance of a registered office, the keeping of registers and books and the payment of any fee or charge under any written law.*

Your firm is appointed to audit the consolidated financial statements of the Group, the financial statements of PP and the financial statement of S1, for the financial year ending 31 December 2023. You are now the Audit Engagement Manager for the Group, planning the audit engagement. The following information is obtained from your meeting with the Group's Chief Financial Officer:

- S2 and S3 are registered in an overseas jurisdiction that does not have a legal requirement for their financial statements to be audited. DEKP LLP does not have an office nor a network firm operating in that jurisdiction.
- All the subsidiaries are 100% owned by PP. PP prepares consolidated financial statements that consolidate the financial statements of all the subsidiaries into the Group's financial statements.

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**Question 4 required:**

- 17** (a) Explain **whether** and **why** the financial statements of S2 should be audited from the perspective of the Group's audit.  
**(3 marks)**
- 18** (b) Regardless of the answer in part (a), assuming a full scope audit is required, suggest **TWO** alternative ways the audit firm can implement the full scope audit. For each alternative, provide **ONE** advantage.  
**(4 marks)**
- 19** (c) Identify and explain **TWO** audit procedures that should be performed by the Group's auditor to corroborate the statement that S3 has been dormant for two years.  
**(4 marks)**

The Group's management represented that:

- There have been no intra-group sales and purchases transactions between PP and S1.
- There is a management charge of \$100,000 imposed by PP on S1. This management charge is recorded as other income and other receivables in PP's book but has not been recognised in S1's book.
- There is a loan of \$10m from PP to S1 during the year, which is interest-free and has no repayment term.

PP management further represented there is no intention to ask S1 to repay the loan. The loan is recognised as a non-current loan receivable in PP's book and a non-current loan payable in S1's book. They will be fully eliminated from the Group's financial statements.

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**Question 4 required:**

- (d) State **TWO** audit procedures that should be performed to corroborate the statement that there have been no intra-group sales and purchases transactions between PP and S1.

**(2 marks)**

**Note:** Your procedures should exclude obtaining written confirmation from PP and S1.

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- (e) State how the management charge and any related balances should be reflected in the S1's book and in the consolidated financial statements.

**(2 marks)**

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**Question 4 required:**

- (f) Explain to the Group's management how the loan from PP to S1 should be accounted for in the PP's book and in the book of S1.

**(2 marks)**

S1 acquired 30% of the ordinary shares of A1 during the year and has appointed S1's Chief Financial Officer (CFO) as a Director in A1 to represent the interests of S1. The rights for S1 to appoint a Director is included in the share purchase agreement. A1 is a Singapore registered company with a Board of Directors consisting of three Directors.

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**Question 4 required:**

- (g) State **ONE** audit procedure that should be performed to verify that S1 has the right to appoint one Director and **TWO** audit procedures that should be performed to verify that S1 has indeed appointed its CFO as a Director in A1.

**(3 marks)**

The investment in A1 has been recognised at cost, representing 5% of S1's total assets, in the financial statements of S1 and in the Group's financial statements. A1 has the same financial year end as S1. For the year ended 31 December 2023, A1 reported a \$100,000 profit. Although S1 has the audited financial statements of A1, PP does not apply equity accounting for this investment in both the financial statements of S1 and the Group. Instead, A1 is presented as an Investment in Equity under non-current assets. PP's management explained that this is due to the fact that A1 has not declared a dividend even though it is profitable and thus the only way to profit from this investment is through future divestment.

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**Question 4 required:**

**(h)** S1's accounting policy is to account for investment in associates using the equity method. Assuming sufficient and appropriate evidence is obtained to support the fact that S1 has significant influence over A1, and 30% of \$100,000 A1's profit represents 11% of S1's profit in relation to accounting for A1 in S1's financial statements, describe the implications for the audit report on the financial statements of S1. Your answer should include:

**(i)** An explanation of why a misstatement has occurred;  
**(1 mark)**

**(ii)** An evaluation of whether the misstatement is material;  
**(2 marks)**

**(iii)** An evaluation of whether the misstatement is pervasive;  
and  
**(1 mark)**

**(iv)** An appropriate audit opinion.  
**(1 mark)**

**(Total: 25 marks)**

**END OF PAPER**