

Singapore CA Qualification Examination

20 June 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-FOUR (24)** pages (including this instruction sheet and Appendix 1 and 2). 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 smart watches, 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 6100 0518

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

Question 1 – (a), (b) and (c)

Econ Pte Ltd (Econ) is a B2B e-commerce company. It sells 26 different products which are mainly small machinery and tools on its website to corporate customers who are renovation contractors. Econ typically sets the selling prices to make a gross profit margin of between 20% to 60%, depending on the types of products. There is an increase in renovation activities since the economy emerges from COVID-19 restrictions. Econ has seen orders coming in every day for all its products, except for those obsolete models. Its financial year end is 31 May 2023.

You are an audit assistant assigned to perform data analytics on the sales transactions in the last two months of the financial year. You are given the customer orders from 1 April 2023 to 31 May 2023 and the associated delivery notes and invoice details (see Appendix 1). You are also provided with an inventory cost information as at 31 May 2023 (see Appendix 2).

Appendix 1 – Customer orders from 1 April 2023 to 31 May 2023 and the associated delivery notes and invoices

Sales Order No.	Sales Order Date	Delivery Note Date	Customer	Sales Invoice Amount (\$)	Invoice Date	Receivables Ledger Date	Items Sold	Quantity
11111	8-Apr	8-May	Alpha	50,000	19-May	20-May	A1	100
11112	8-Apr	12-May	Bravo	400	14-May	20-May	B2	10
11113	9-Apr	2-May	Charlie	2,000	4-May	10-May	C3	200
11114	12-Apr	12-May	Delta	7,500	17-May	20-May	D4	250
11115	13-Apr	8-May	Echo	4,000	8-May	10-May	E5	80
11116	15-Apr	4-Apr	Foxtrot	7,000	5-Apr	10-Apr	F6	700
11117	17-Apr	3-May	Golf	3,600	5-May	10-May	G7	180
11118	17-Apr	4-May	Hotel	8,800	6-May	10-May	H8	220
11119	19-Apr	2-Apr	Lima	1,200	8-Apr	10-Apr	Z26	12
11120	19-Apr	2-May	Indo	10,000	3-May	10-May	I9	10
11121	20-Apr	8-May	Joker	39,000	18-May	20-May	X24	39
11122	20-Apr	16-May	Kilo	8,800	17-May	20-May	K11	44
11123	20-Apr	18-May	Zulu	1,200	19-May	20-May	L12	4
11124	23-Apr	8-May	Joker	31,000	18-May	20-May	X24	31
11125	25-Apr	19-May	Whisker	900	20-May	20-May	Q17	3
11126	25-Apr	9-May	Joker	29,000	19-May	20-May	S19	58
11127	27-Apr	11-May	MMM	8,888	12-May	20-May	M13	1
11128	28-Apr	15-May	NINO	9,800	15-May	20-May	N14	2
11129	28-Apr	9-May	Joker	21,000	19-May	20-May	S19	42
11130	28-Apr	9-May	Otto	480	11-May	20-May	O15	4
11131	28-Apr	10-May	Pipi	4,200	10-May	10-May	P16	7
11132	2-May	18-May	Alpha	25,000	19-May	20-May	A1	50
11133	3-May	20-May	R&R	9,300	20-May	20-May	R18	3
11134	2-May	18-May	SOS	90,000	18-May	20-May	A1	50
11135	8-May	5-Jun	Tango	38,000	18-May	20-May	T20	3,000
11136	9-May	1-May	UU	12,000	1-May	10-May	U21	60
11137	9-May	4-Jun	Vivala	5,600	19-May	20-May	V22	8
11138	12-May	8-Jun	Winwin	10,400	9-Jun	10-Jun	W23	52
11139	15-May	7-Jun	Yoyo	28,000	18-May	20-May	Y25	40
11140	18-May	21-May	Foxtrot	8,000	22-May	20-Jun	F6	800

Appendix 2 – Inventory cost information as at 31 May 2023

Item	Unit cost (\$)
A1	200
B2	8
C3	5
D4	12
E5	30
F6	8
G7	15
H8	30
I9	1,200
J10	1,000
K11	100
L12	150
M13	600
N14	2,500
O15	60
P16	100
Q17	200
R18	1,300
S19	300
T20	6
U21	100
V22	300
W23	100
X24	500
Y25	350
Z26	60

**e-Exam
Question
Number**

2

Question 1 required:

- (a)** Analyse the data in the spreadsheets and identify **SIX** issues for further investigation. **(18 marks)**

Note 1: Your answer should include:

- Why these issues should be further investigated.
- The implications on the financial statements.

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.

You are also assigned to perform a test of details on payroll transactions. You discovered a salary payment made to an employee via cheque in February 2023, even though the employee's last date of work was 30 November 2022. You also noted that there was no salary payment for this employee in November 2022.

You enquired with the Finance Manager and the explanation was that the employee concerned was a non-citizen employee. According to the regulations of the Inland Revenue Authority of Singapore (IRAS), Econ is required to withhold all monies due to this non-citizen employee from the date Econ was aware of his impending cessation of employment. This process is known as tax clearance. Econ is required to file a form IR21 to notify IRAS about the employee's cessation of employment. Once the non-citizen employee's tax liability has been determined, IRAS will send a Clearance Directive to Econ, who must remit to IRAS the amount payable as stated in the Directive. If the withheld monies are more than the amount payable stated in the Directive, Econ will release the balance to the non-citizen employee. This is the reason for:

- No salary payment to the non-citizen employee in November 2022; and
- The salary payment to the non-citizen employee in February 2023 when the IRAS Clearance Directive was received.

**e-Exam
Question
Number**

3

Question 1 required:

(b) To confirm the validity of the above explanation, describe **ONE** audit procedure to be performed for each of the following:

(i) The employee concerned is a non-citizen. **(1 mark)**

(ii) There is such a regulation from IRAS. **(1 mark)**

(iii) The employer has withheld the salary for the purpose of tax clearance. **(1 mark)**

The audit opinion on Econ's financial statements for the year ended 31 May 2022 (i.e. prior year) was modified to a qualified opinion. This was due to the lack of disclosure of a very material contingent liability arising from a legal claim against Econ. The legal case was decided in April 2023 by the court in favour of Econ, who does not need to pay any damages or costs relating to the legal claim. Econ has adequately disclosed the legal claim and the court decision in the financial statements for the year ended 31 May 2023.

**e-Exam
Question
Number**

4

Question 1 required:

- (c)** Discuss the factors to be considered when deciding whether the auditor's report for the current year's financial statements (i.e. year ended 31 May 2023) should include an Emphasis of Matter to refer to the legal claim case.

(4 marks)

(Total: 25 marks)

Question 2 – (a), (b), (c) and (d)

Papa Pte Ltd (Papa), a Singapore-registered company, is a large private education institution. You are an audit senior of Assure PAC, and you are assigned to audit the investments recorded in Papa's statement of financial position for the financial year ended 31 May 2023.

On 1 April 2022, Papa paid \$380,000 in cash to acquire 19% shares in Asoc (Singapore) Pte Ltd from Mr. Ali Suraj, a major shareholder of Asoc Pte Ltd. A share purchase agreement between Papa and Ali Suraj was signed on 31 March 2022. Papa agreed to the term that it does not have the right to seek board representation and will not requisite a general meeting and shareholder resolution. Papa accounted for the investment as an investment in associate as the Directors believe that Papa has significant influence over Asoc. Asoc has the same year end as Papa, but Asoc's audited financial statements will be available two months earlier than the planned date for the authorisation of Papa's financial statements. At year end, the carrying amount of the investment in Asoc was \$400,000 after taking into account its share of Asoc's profit. Papa expects its share of Asoc's profit for the next two financial years to be \$100,000 and \$300,000 as Asoc is expected to recognise significant revenue from the completion of two major projects for their customers.

**e-Exam
Question
Number**

5

Question 2 required:

(a) In relation to the investment in Asoc, describe and explain the audit procedures to verify:

(i) Investment cost of \$380,000 – **TWO** audit procedures.
(2 marks)

(ii) The percentage of share ownership is 19% – **THREE** audit procedures.
(5 marks)

(iii) The existence of Papa's significant influence over Asoc – **FOUR** audit procedures.
(4 marks)

Note: Your answer should exclude audit procedures to determine voting rights from share ownership.

(iv) The share of Asoc's profit – **THREE** audit procedures.
(3 marks)

After performing the necessary audit procedures, you ascertained the following facts:

- Papa's objective of investing in Asoc is purely opportunistic, upon hearing from Ali Suraj that Asoc may file for an initial public offering on the Singapore Exchange after two more rounds of private fundraising. Papa's intention is to sell its shares in Asoc in one of these two rounds of private fundraising. According to Asoc, the next fundraising is scheduled to be within the next six months.
- There is no business relationship between Papa and Asoc except for this investment.
- Asoc is in a business segment that is totally unrelated to Papa's business.

**e-Exam
Question
Number**

Question 2 required:

6

- (b)** Describe the misstatements in Papa's financial statements arising from the accounting treatment relating to the investment in Asoc. **(5 marks)**

Further audit evidence was obtained to support the fair value of Papa's investment in Asoc was \$390,000. Materiality has been set at \$20,000.

**e-Exam
Question
Number**

Question 2 required:

7

- (c)** Explain whether the misstatements in **part (b)** are:
- (i)** Quantitatively material to the financial statements of Papa. **(3 marks)**
- (ii)** Material to the financial statements of Papa, even if they are deemed quantitatively immaterial. **(2 marks)**

**e-Exam
Question
Number**

8

Question 2 required:

- (d)** In view of your answers in **parts (b) and (c)**, state an appropriate audit opinion to be issued, given that there are no other material misstatements.

(1 mark)

(Total: 25 marks)

Question 3 – (a) to (e)

You are an audit senior assigned to audit the financial statements of Smash & Co (Smash), a private limited company, for the year ended 31 May 2023. The planned end date for audit fieldwork is October 2023.

Smash is a manufacturer of plastic bottles which supplies its products to corporate customers such as drinks manufacturers and detergent manufacturers. Smash manufactures the products under bespoke contract with each customer due to specific requirements such as volume, dimension, shape, colour and quality of the plastic.

Smash has three major customers which contributed 60% of its revenue and a dozen of smaller customers contributing 40% of the revenue.

Typically, Smash enters into a two-year contract with its customers. The contract provides for:

- Minimum volume the customer commits to order over the two-year period;
- Fixed selling price per unit of bottle;
- Volume rebates when customer ordered above pre-agreed quantity; and
- Penalty payment by Smash for late delivery

Contract with Customer A

You have selected the largest contract with Customer A for audit testing. Smash signed the contract with Customer A on 1 August 2022 for a two-year supply of plastic bottles.

The salient details of the contract are as follows:

Price per carton of 100 bottles	Sales Volume for 12-month period
\$30	Up to 100,000 cartons
\$28	100,001 to 200,000 cartons
\$25	200,001 or more cartons

Under this contract, Customer A will send its monthly purchase orders to specify the quantity ordered and delivery dates expected. Smash has 30 days to deliver the ordered quantity. Smash will raise a sales invoice for each order based on \$30 per carton. The agreed credit term is 30 days.

Smash's ERP system generates the delivery note and sales invoice at the same time. Sales invoices are automatically posted to the sales journal, general ledger and receivables ledger. As Customer A's warehouse is near Smash's production facility, the goods will reach Customer A on the same day of despatch. The selling price of \$30 per carton is stored in the master file and is automatically applied when sales invoices are generated.

Two months after the end of each contract year, e.g. in September 2023, Smash will tally the total volume of bottles delivered to Customer A from 1 August 2022 to 31 July 2023, i.e. sales volume report. Smash will send a credit note with a cash refund if the total volume ordered exceeds 100,000 cartons based on the price arrangement described above. Smash calls this the sales volume rebate refund.

**e-Exam
Question
Number**

Question 3 required:

9

- (a)** Using the information above, identify and explain **ONE** most relevant risk of material misstatement in the accounting for the sales volume rebate. **(5 marks)**

Note: Your answer should include the correct accounting treatment and how the way Smash accounts for the volume rebate may result in misstatements.

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- (b)** Based on the main risk of material misstatement identified in **part (a)**, design audit procedures in response to the risk. **(4 marks)**

11

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

(i) The occurrence of recorded sales revenue. **(2 marks)**

(ii) The completeness of recorded sales revenue. **(2 marks)**

Contract with Customer B

When examining Smash's contract with Customer B, you ascertained that Smash was late in the delivery of two orders in February and March 2023. As a result, Smash paid Customer B a total penalty of \$200,000, in accordance with the provisions of the contract. Smash recorded the penalty as operating expenses when it was paid in April 2023.

**e-Exam
Question
Number**

12

Question 3 required:

(d)(i) Explain why Smash's accounting for the penalty paid is wrong.
(2 marks)

(d)(ii) State the audit adjustment journal entries to correct the above misstatement.
(2 marks)

When examining Smash's contract with Customer C, you ascertained that Smash has written to Customer C to request for an increase in the contracted sales price. This is because the costs of the specific raw materials used to produce the bottles for Customer C have increased significantly and Smash will make a loss on this contract, even for the current year ended 31 May 2023, if it continues. Customer C has refused the request and will take legal action if Smash discontinues the supplies without paying them compensation. Smash has worked out the following scenarios:

Scenario 1 – Continue with the contract

- Sales to be recognised is estimated to be \$1,000,000
- Costs to be incurred is estimated to be \$1,100,000

Scenario 2 – Pay compensation to exit the contract

- Estimated compensation = \$550,000

The draft financial statements did not reflect the above issue. The Finance Manager has asked for a meeting for advice on the appropriate accounting for the issue.

**e-Exam
Question
Number**

13

Question 3 required:

(e)(i) Explain how the above issue should be reflected in the financial statements. **(5 marks)**

(e)(ii) Discuss whether there is any ethical issue in advising the accounting treatment for the issue. **(3 marks)**

(Total: 25 marks)

Question 4 – (a) to (f)

F Group consists of a parent company, Francis Pte Ltd (Francis), and a 100% owned subsidiary, Carmen Pte Ltd (Carmen). Carmen is incorporated in X Land, a developing country that has not yet aligned its accounting standards to the International Financial Reporting Standards. Both companies in the F Group have the same financial year end of 31 May 2023.

You are the audit senior assigned to audit the consolidated financial statements of the F Group and the financial statements of Francis. The financial statements of Carmen are audited by a local audit firm, Thumin & Co (Thumin, the component auditor). You are considering the following issues:

Functional currency

Although the currency of X Land is Prypto dollar, Carmen determined its functional currency is Singapore dollar (S\$), same as the functional currency of Francis. The management of Carmen explained that Singapore dollar is the main currency used in the cash generating activities. Operating expenses such as salaries, utilities and taxes are paid in Prypto dollar.

**e-Exam
Question
Number**

14

Question 4 required:

- (a)** Describe **ONE** audit procedure to determine that the functional currency of Carmen is indeed Singapore dollar.

(2 marks)

Intragroup lease of warehouse

You are reading the meeting notes of a meeting between the Audit Manager and the Finance Manager of Francis. The important information in the meeting notes is summarised as follows:

- On 1 June 2022, Francis acquired a warehouse in X Land for \$10 million and classified it as an investment property.
- Prior to the acquisition of the warehouse, Francis received a loan quotation from a local bank in X Land to fund the leasing cost of the warehouse for 2 years.
- According to the law in X Land, the warehouse has a remaining legal lifespan of 30 years.
- On the same day, the warehouse is leased to Carmen to store its inventories for 2 years. The lease payment is \$30,000 per year payable at the end of the year. Thus, the first lease payment will be due on 31 May 2023.
- Francis recorded the lease from Carmen as rental income.

**e-Exam
Question
Number**

15

Question 4 required:

- (b)** Describe **ONE** audit procedure to be performed to confirm that the classification of the warehouse as investment property in the financial statements of Francis is correct.

(2 marks)

Carmen's accounting for the leased warehouse

The component auditor informed you via a Zoom discussion that Carmen accounted for the lease as follows:

On 1 June 2022

Dr	Right-of-use (ROU) asset	\$52,066
	Cr Lease liability	\$52,066

The discount rate is Carmen's incremental borrowing rate which is 10% per annum.

On 31 May 2023

Dr	Depreciation charge (P/L)	\$26,033
	Cr Accumulated depreciation	\$26,033
Dr	Finance cost (P/L)	\$5,207
Dr	Lease liability	\$24,793
	Cr Cash	\$30,000

The carrying amount of the ROU asset and lease liability at 31 May 2023 are as follows:

- ROU asset = \$26,033 (Cost of \$52,066 less accumulated depreciation of \$26,033)
- Lease liability = \$27,273

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Question 4 required:

(c)(i) Describe **ONE** audit procedure to verify Carmen's incremental borrowing rate is 10%. **(2 marks)**

(c)(ii) Perform an independent calculation of the lease liability on 1 June 2022 to determine whether Carmen has correctly measured the initial lease liability. **(2 marks)**

Note: Your answer should include the workings.

Consolidation Worksheet

F Group's accountant in charge of consolidation has sent you the consolidation spreadsheet. The consolidated financial statements:

- Combine like items of assets, liabilities, equity, income, expenses and cash flows of Francis with those of Carmen.
- Eliminate the carrying amount of Francis' investment in Carmen and Francis' portion of equity of Carmen.

Except for the warehouse leased by Carmen from Francis, there are no transactions between Francis and Carmen. The consolidation accountant did not have any adjustment for intragroup transactions and balances. The carrying amount of the ROU asset and lease liability are consolidated into the group statement of financial position. The depreciation charge of the ROU asset and the finance cost relating to the lease liability are consolidated into the group income statement. The rental income in Francis' income statement is also consolidated into the group's income statement. The warehouse classified as investment property in the statement of financial position of Francis is consolidated into the F Group's consolidated statement of financial position as investment property.

**e-Exam
Question
Number**

17

Question 4 required:

(d) Using the information above, identify and explain the misstatements in the consolidated statement of financial position and consolidated income statement relating to the following items:

(i) ROU asset and lease liability. **(2 marks)**

(ii) Finance cost and depreciation charge. **(2 marks)**

(iii) Rental income. **(1 mark)**

Note: Your answer should indicate which account is overstated or understated.

Fair value measurement of the warehouse

At the year end of 31 May 2023, Francis engaged a property valuer in X Land to determine the fair value of the warehouse as the management of Francis intends to adopt the fair value model as the accounting policy for investment property. This warehouse is Francis' first investment property. The F Group's accounting policy for the warehouse (as part of fixed assets) is based on the revaluation model.

You have received the valuation report from the property valuer, Songkit valuer, and have discussed the valuation of the warehouse over Zoom. You ascertained the following information:

- Prior to this engagement, Songkit has not performed any property valuation for the purpose of accounting in accordance to accounting standards.
- Songkit uses the replacement cost approach, and the valuation report does not include any information on other valuation techniques.

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Question 4 required:

(e) Discuss the issues arising from the valuation performed by Songkit and further steps you would take to resolve the issues.

(4 marks)

The issues are successfully resolved after you have taken the steps in part (e) above, and you have obtained sufficient appropriate evidence to verify the fair value at year end is \$11 million.

As the carrying amount of the warehouse at 31 May 2023 prior to fair value adjustment is \$9,666,667 (after one year of depreciation over the useful life of 30 years), Francis remeasured the investment property to its fair value in the statement of financial position and recognised fair value gain of \$1,333,333 in the income statement of Francis. This fair value gain is also consolidated into the group income statement as other income.

**e-Exam
Question
Number**

19

Question 4 required:

(f) Identify and explain the misstatements in the group statement of financial position and group income statement in relation to:

(i) The classification of warehouse as investment property in the group statement of financial position.

(2 marks)

(ii) The classification of fair value gain as other income in the group income statement.

(2 marks)

(iii) State the audit adjustment journal entries to correct the above misclassifications.

(4 marks)

Note: Your answer should indicate which account is overstated or understated.

(Total: 25 marks)

END OF PAPER