PP

Chartered Accountant SINGAPORE

Singapore CA Qualification Examination

16 June 2026

Assurance

INSTRUCTIONS TO CANDIDATES

1. The time allowed for this examination paper is **3 hours 15 minutes**.

2. This examination paper has **THREE (3)** questions and comprises **NINTEEN (19)** pages (including this instruction sheet). 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 ISCA's regulations. Please note that watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination and **MUST NOT** be within reach or sight or hearing from where you are seated to write the exam.

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 exam are the property of the Accounting and Corporate Regulatory Authority.

6. Only answers in English are accepted.

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 as at 1 January 2025.

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.

e-Exam Question Number

1

VERY IMPORTANT NOTICE

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.

Other important information:

3. 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.

4. You are **NOT ALLOWED** to access any websites during the exam.

5. You are **NOT ALLOWED** to print the question paper.

6. You are **NOT ALLOWED** to use any artificial intelligence (AI) tools or systems during the exam.

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 numbers:

   +65 6028 9811

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

Question 1 – (a) to (e)

Galaxy Furnishings Pte Ltd (GFPL) is a Singapore private company manufacturing customised office furniture, currently undergoing the audit for the year ended **31 Dec 20X5**.

Extract from unaudited management accounts ('000):

	FY20X4	**FY20X5**
($'000)	*(Audited)*	*(Unaudited)*
Revenue	25,000	32,000
Net Profit Before Tax	1,800	2,200
Inventory	6,200	8,100
Trade receivables	4,500	6,000
Derivative liabilities	–	1,200

The CEO set ambitious sales targets, with bonuses tied to quarterly milestones. The company has experienced frequent CFO turnover, with three different CFOs in the last 12 months (each staying between 3–6 months). The Head of Internal Audit reports to the CFO and focuses mainly on human resources and payroll processes, with minimal review of financial reporting or IT processes.

In late 20X5, management relocated its entire accounting function to Vietnam. The offshore team is relatively inexperienced with Singapore FRS. Communication with CFO, who is based in Singapore, is mostly remote. The month-end closing has been substantially delayed since the relocation of the accounting team.

Key developments in FY20X5

1. Inventory and Purchases

In June 20X5, GFPL migrated to a new cloud-based enterprise resource planning (ERP) system integrating purchasing, inventory, and revenue. Since the ERP system has gone live, staff have continued to encounter data integrity issues,

including discrepancies between supplier statements and purchase records. Goods receipt cut-off remains dependent on warehouse staff manually entering stock movements into the system. Inventory is measured at standard cost updated quarterly, with production variances posted manually. ERP support is provided by an overseas IT vendor.

2. Structured foreign exchange options and interest rate swaps

GFPL enters into structured foreign exchange options and interest rate swaps to hedge its raw material purchases. These contracts are customised with counterparties and not actively traded.

As of 31 December 20X5, the Finance Manager valued these instruments using an internally developed Excel model incorporating assumptions for volatility, discount rates, and counterparty credit risk. Observable market inputs were not fully available, and some parameters were derived from broker quotes. The valuation resulted in a derivatives liability balance of $1.2m. In accordance with **FRS 107** ***Financial Instruments: Disclosures***, GFPL must disclose the valuation techniques, assumptions, sensitivity analysis, and its classification in accordance with the 3 levels of fair value hierarchy.

3. “100-day Free Trial” scheme

GFPL introduced a scheme allowing corporate customers to return goods within 100 days. Management recognised **revenue on delivery** with no adjustment on the sales returns made on management accounts. As of year-end, $2.5m of revenue is still within the 100-days return window period.

e-Exam Question Number

Question 1 required:

2

(a) Identify and briefly describe **four (4)** risk assessment procedures that auditors are required to perform in accordance with SSA 315 when identifying and assessing risks of material misstatement.

(4 marks)

3

(b) Identify **two (2)** financial statements level risks relating to any of the two specific components in the COSO framework (i.e., Control environment and Monitoring) for GFPL. For each risk, explain:

- The nature of the risk; and
- Why it is pervasive to the financial statements.

(4 marks)

4

(c) For each of the assertion for the specified class of transaction or account balance, explain why there is a risk of material misstatement ("ROMM"). Additionally, for each of the inherent risk factors identified in the table below, rate them as Low ("L"), Medium ("M") or High ("H") and provide the rationale for your rating.

Class of transaction or account balance	**Relevant assertion**	**Inherent risk factor**	**Rating** *(L/M/H)*	**Rationale**
	(1 mark each)		*(1 mark each)*	*(1 mark each)*
Revenue	Occurrence ROMM:	1.Uncertainty 2.Susceptibility to misstatement due to management bias	1. L/M/H 2. L/M/H	1. 2.
Derivative liabilities	Valuation ROMM:	1. Complexity 2. Subjectivity	1. L/M/H 2. L/M/H	1. 2.

(12 marks)

e-Exam Question Number

Question 1 cont.

5

(d) Assume that the auditor has determined the following as significant risks:

- Occurrence of revenue; and
- Valuation of derivative liabilities

For each of the above, provide a rationale on why it is determined to be a significant risk in accordance with SSA 315. Identify **two (2)** implications for the audit of the significant risks above. **(7 marks)**

6

(e) For each of the following class of transactions or account balance:

1. Purchases (relevant assertion to be addressed: Completeness)
2. Trade receivables (relevant assertion to be addressed: Existence)

- Describe **one (1)** key internal control management should have in place to address the specified assertion; and
- Outline **one (1)** audit procedure that you would perform to test the operating effectiveness ("TOE") of that control.

	Relevant assertion	**Internal Control**	**TOE procedure**
		(1 mark each)	*(2 marks each)*
Purchases	Completeness		
Trade receivables	Existence		

(6 marks)

(Total: 33 marks)

Question 2 – (a) to (e)

AI Technologies Pte Ltd ("AIT") is a Singapore-incorporated private company specialising in the design and development of advanced semiconductor chips for artificial-intelligence (AI) computing systems.

Its Research & Development (R&D) and chip architecture teams are based in Singapore, while fabrication and assembly are outsourced to partners in Shenzhen and Chengdu, China. Approximately 60% of the revenue for the financial year ended 31 December 2025 ("FY2025") comes from a few large China-based technology manufacturers that integrate AIT's chips into AI servers and devices.

AIT operates in an innovation-driven sector where product cycles are shortening and new generations of AI chips are rapidly replacing older designs. Global competition is fierce. R&D is critical to the competitiveness of AIT.

AIT's property, plant and equipment (PPE) consist primarily of high-performance servers used in chip design simulation and testing. Although the chip life span is getting shorter, management extended the estimated useful life of the servers from 5 years to 6 years during FY2025, citing improved cooling systems and lower downtime. The change resulted in a reduction of annual depreciation expense by approximately S$4 million.

During FY2025, AIT invested US$45 million in Bitcoin ("BTC") and Ethereum ("ETH"). It maintains three digital wallets:

- Two hot wallets (internet-connected) holding US$5 million for supplier payments; and
- One cold wallet (offline hardware wallet) holding US$40 million as a treasury investment.

During FY2025, management periodically transferred cryptocurrency between the hot wallets and the cold wallet.

All cryptocurrency transactions and balances can be independently viewed on public blockchain explorers using the wallet addresses.

Each wallet is secured by a unique 256-bit private key (a 64-character hexadecimal code) and a 12- or 24-word recovery seed phrase. Private keys and seed phrases are stored on an encrypted USB drive held separately by the CFO and Head of Finance, with sealed backup in a fireproof safe. The backup procedures and recovery protocols for the private keys and seed phrases have never been tested.

Management classifies all cryptocurrency holdings as intangible assets in accordance with FRS 38 *Intangible Assets*:

- The hot-wallet holdings (US$5m) are classified as current intangible assets.
- The cold-wallet holdings (US$40m) are classified as non-current intangible assets. Crypto assets are initially measured at cost and subsequently revalued to fair value in accordance with market prices.

AIT's principal financing is a convertible loan from Quantum Nova Fund, incorporated in Hong Kong.

The Board of Directors rarely meets and discussions focus primarily on operational performance and product launches. The CEO and CFO dominate the management decision-making process. The two independent Directors have limited accounting knowledge and experiences.

The company's previous auditor, a mid-tier firm, resigned in late 2024 citing "resource constraints". Your firm, SG Assurance LLP, has been approached to take over as the statutory auditor for FY2025 and you will be assigned as the engagement manager if the engagement is accepted. The preliminary conflict check that you have performed in your firm showed that your firm's Risk Advisory team has provided services to AIT in early FY2025 to assist company in setting up and implementing its Enterprise Risk Management framework. Below are extracts of AIT financial statements for FY2025 and FY2024:

	FY2024 (Audited)	FY2025 (Unaudited)
Revenue	S$480m	S$520m
Profit before tax	S$36m	S$18m
Cryptocurrency holdings (BTC/ETH)	–	S$60m
Intangible assets (Development cost)	S$120m	S$150m
Inventory (AI chips)	S$110m	S$135m

e-Exam Question Number

7

Question 2 required:

(a) What are the **three (3)** key concerns in the specific areas as outlined in the table below, to consider before accepting the AIT audit engagement? For each of the key concerns, identify **one (1)** appropriate response that could be implemented to address the key concern identified if the engagement is accepted.

Concerns to consider *(2 marks each)*	**Responses** *(2 marks each)*
Conflict of interests in the services that your firm, SG Assurance LLP, has provided to AIT.	
Attitude of key management personnel towards internal control environment.	
Competence and capabilities of the audit team.	

(12 marks)

e-Exam Question Number	Question 2 cont.
8	**(b)** From your brief telephone conversation with the CFO, you understand that trade receivables' opening balances from major Chinese distributors were confirmed by the previous auditor through WeChat (an instant communication platform) messages. Describe **one (1)** alternative audit procedure that you would perform, as part of opening balances testing, to ascertain the existence, completeness or accuracy of the opening trade receivable balance. **(3 marks)**
9	**(c)** You are considering whether to appoint an engagement quality reviewer to perform the engagement quality review. Describe **five (5)** specific responsibilities of the engagement quality reviewer based on the requirements of Singapore Standard on Quality Management 2 (SSQM 2) *Engagement Quality Review*. **(5 marks)**

e-Exam Question Number

Question 2 cont.

10

(d) For each of the items below, identify and describe **one (1)** key audit procedure that is required to be performed.

Item	**Audit procedure** *(2 marks each)*
1. Existence of Cryptocurrency holdings (BTC/ETH)	
2. Ownership of Cryptocurrency holdings (BTC/ETH)	
3. Change in the useful life of the server	
4. Valuation of inventory (AI chips)	
5. Valuation of the convertible loan from Quantum Nova Fund	

(10 marks)

11

(e) Describe **two (2)** significant internal control deficiencies that you are required to communicate to those charged with governance. **(4 marks)**

(Total: 34 marks)

Question 3 – (a) to (e)

MedicaLife Pte Ltd ("MedicaLife") is a Singapore-based pharmaceutical manufacturer specialising in generic drugs. In 2024, MedicaLife acquired BioSlim LLC, a biotechnology company holding exclusive rights to a patented obesity drug.

As part of the acquisition, MedicaLife recognised goodwill of US$1,200 million. The goodwill is allocated to the Obesity Drug cash-generating unit ("CGU") and is tested annually for impairment under FRS 36 *Impairment of Assets.* The goodwill is a material account balance on MedicaLife financial statements. Currently, the U.S. market accounts for 55% of the Obesity Drug CGU's sales, making it the most significant geographic contributor to the cash flow projection.

In November 2025, the U.S. President made the following post on his Truth Social media account:

"Starting Jan 1, 2026 – We will END the unfair trade! A 100% tariff will be imposed on all obesity drugs imported into the USA. Companies that want to sell in America should MAKE THEM IN AMERICA. NO MORE FREE RIDES for foreign drug makers!!"

The announcement shocked the pharmaceutical industry. Unless foreign manufacturers establish production facilities in the United States, their products will likely become uncompetitive. Immediately after the announcement by the U.S. President, AmeriWell Inc (MedicaLife's largest U.S. distributor, which accounts for 25% of CGU revenue), started renegotiating their distributorship agreement with MedicaLife.

Despite this, MedicaLife's management concluded that no impairment is required as at 31 December 2025 ("FY2025"). For the impairment testing as at FY2025, management prepared cash flow projections for the Obesity Drug CGU covering FY2026–2030 to determine the value in use ("VIU") of the CGU.

Key assumptions in management's VIU model:

1. Sales volumes – Volumes are assumed to be stable despite the tariff, on the basis that "our obesity drug is unique and irreplaceable in the U.S. market."
2. Selling prices – Prices are projected to rise 8% annually, as "our brand equity and clinical superiority" would allow full pass-through of tariff costs to our customers.
3. Operating costs – Fixed at 60% of revenue with the existing long-term supply contract with raw material suppliers.
4. Discount rate – 10% WACC is applied, with management stating that "the tariff is a temporary political issue and has no impact on the discount rate."
5. Terminal growth rate – 2% per annum beyond 2030.
6. Capital expenditure and changes in working capital are negligible.

Extract of VIU Cash Flow Projections *(US$m)*

Year	Revenue	EBIT (40%)	Tax (20%)	Free Cash Flow	PV @10%
2026	1,080	432	(86)	346	314
2027	1,166	466	(93)	373	310
2028	1,260	504	(101)	403	302
2029	1,361	544	(109)	435	296
2030	1,469	588	(118)	470	291

Terminal Value (TV) = US$5,992m → Present Value = US$3,715m
VIU = US$5,228m
Carrying amount of CGU (including the carrying amount of goodwill of US$1,200m) = US$4,800m
Therefore, management concluded that no impairment is required.

Fair value less cost to sell ("FVLCTS')

Additionally, management also engaged a top-notch independent valuation firm to estimate FVLCTS, using the market approach:

- EV/EBITDA multiples from comparable biotech transactions = x12–x14.
- 25% downward adjustment for tariff risk → x9-x10.5.
- 5% discount for customer concentration risk.
- Deducted US$150m for costs to sell. The estimated costs to sell of US$150m were based on historical transaction costs from prior biotech disposals and do not include any incremental costs arising from the imposition of tariff.

Result: FVLCTS = US$5,000m.

Thus:

- VIU = US$5,228m
- FVLCTS = US$5,000m
- Carrying amount of the CGU as at 31 December 2025 = US$4,800m Recoverable amount = higher of VIU and FVLCTS = US$5,228m → no impairment required per management.

Subsequent event

In February 2026, before the audited financial statements were authorised for issue, AmeriWell Inc publicly announced the termination of its distribution agreement, citing the tariff as the primary reason for the termination.

You recommended that management revise the cash flow projections. Management refused, stating "other distributors will easily fill the gap."

As none of the engagement team members are sufficiently proficient to further challenge the assumptions made by management in their cash flow projections, the engagement partner decided to engage an independent auditor's expert to re-evaluate the cash flow projections. The auditor expert concluded the following:

- Revised VIU = US$4,300m (reflecting 25% US revenue loss, reduced growth rates, higher WACC at 12%).

- Revised FVLCTS = US$4,500m (lower market multiples, adjusted for reduced demand, net of costs to sell).

Compared to the carrying amount of the CGU of US$4,800m, both revised VIU and FVLCTS are lower. Thus, implying that a potential impairment charge of US$300m is required.

e-Exam Question Number

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Question 3 required:

(a) Critically evaluate the reasonableness of the following key management's assumptions in its VIU model. Identify **one (1)** audit procedure you would perform to ascertain the reasonableness of each assumption.

Assumption	**Auditor's evaluation** *(2 marks each)*	**Audit procedure** *(2 marks for each procedure)*
Sales volume Volume is assumed to be stable despite the tariff, on the basis that "our obesity drug is unique and irreplaceable in the U.S. market."		
Selling prices Prices are projected to rise 8% annually, as "our brand equity and clinical superiority" would allow full pass-through of tariff costs to our customers.		
Discount rate 10% WACC is applied, with management stating that "the tariff is a temporary political issue and has no impact on the discount rate."		

(12 marks)

e-Exam Question Number

13

Question 3 cont.

(b)

(i) Critically evaluate the following key assumptions used by the independent valuer engaged by management to derive the FVLCTS. Identify **one (1)** audit procedure that you would perform to ascertain the reasonableness of each assumption.

Assumption	**Auditor's evaluation** *(2 marks each)*	**Audit procedure** *(2 marks each)*
25% downward adjustment for tariff risk → x9-x10.5.		
Deducted US$150m costs to sell.		

(8 marks)

(ii) Discuss whether it was necessary for management to obtain an FVLCTS calculation from the top-notch valuation firm when the VIU already exceeded the carrying amount (including the carrying amount of the goodwill).

(2 marks)

e-Exam Question Number	Question 3 cont.
14	**(c)** Provide **two (2)** reasons why it is appropriate to involve an auditor's expert in this situation. Additionally, outline how the auditor should evaluate the expert's objectivity, technical competence and whether the expert has exercised professional due care in his or her work. **(5 marks)**
15	**(d)** In relation to AmeriWell Inc's termination of distribution agreement after the year-end, rationalise whether management should adjust their cash flow projection by referring to FRS 10 *Events after the Reporting Period.* **(3 marks)**
16	**(e)** If management refuses to adjust for the impairment loss of US$300m despite the auditor concluding that impairment is required, discuss the implication for the audit opinion. The materiality for the financial statements as a whole of US$10m is determined based on 1% of revenue. **(3 marks)** **(Total: 33 marks)**

End of Paper