



Singapore CA Qualification (Foundation) Examination

22 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-TWO (22)** 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 ACRA's regulations. Please note that smart 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 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 6100 0518

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

Question 1 – (a) to (e)

Tintin Hardware & Co (Tintin) is a small company that sells small machinery and tools from a shop in Yishun. Tintin’s customers are mainly renovation contractors such as plumbers and electricians who would buy tools such as electric drills, screwdrivers, and auger drums for drainage. You are an audit assistant assigned to audit the financial statements of Tintin for the year ended 31 May 2023.

Most customers are regular customers who would call Tintin in advance to place orders and self-collect the items in the next one or two days. The shop is open every day from 7 am to 2.30 pm except Sundays.

Amy, who has been working for Tintin for many years, records customer orders using a Microsoft Excel spreadsheet, entitled “Order Book” which looks like this:

Date: 28-May-23

S/No	Customer Name	Item	Unit Price	Quantity	Invoice Value \$	Invoice No.	Collected on
1111	AA	Auger drum	20	5	100	1121	30 May
1112	BB	Electric drill	50	3	150	1122	30 May
1113	CC	Electric screwdriver	40	2	80	1123	31 May
1114	CC	Auger drum	20	1	20	1124	31 May

S/No = Serial number which is in running sequential order. For example, the last S/No for 27 May 2023 would be 1110.

Amy maintains a separate worksheet for each day. Amy generates the sales invoices when the orders are recorded in the above spreadsheet. For example, all four orders above are generated on 28 May 2023. If a customer ordered more than one item, they will be recorded as separate orders (for example, Customer CC in the spreadsheet above).

Tom decides on the selling prices of the products. He provides Amy a price list every month which will be effective from the first day to the last day of the month. Amy uses

the prices in the price list to prepare sales invoices. The price lists are filed by date in a folder.

Using a copy of the sales invoices generated, Amy's colleague, Arnold, will pack the items in boxes according to the details in the sales invoices. The sales invoices will then be pasted on the outside of the boxes and stored in the collection area.

Tom who is the owner and manager, collects cash from customers when customers collect the items ordered. Tom will instruct Arnold to hand over the boxes of items to the customers and ask the customers to sign and write the date of collection on a copy of the sales invoices. The customer-signed sales invoices are then filed by COLLECTION date in folders in Tom's office. Amy will then update the spreadsheet with the date of collection.

Every day, Tom will deposit the total amount of cash collected by walking to the POSB branch next door and queue to deposit the cash over the counter. Tom believes in getting bank-validated deposit slips.

Tom engages a part-time bookkeeper, Jerry, who comes to Tintin every Saturday at 3 pm to record Tintin's transactions in the accounting ledger.

For the sales transactions, Jerry records the total daily sales in a manual sales journal like this:

Weekly Sales Journal

<u>Date</u>	<u>Total Sales \$</u>	<u>Sales Journal No.</u>
27-May-23	700	2705
28-May-23	350	2805

The weekly total is posted to a manual general ledger as follows:

Dr Cash
 Cr Sales

**e-Exam
Question
Number**

Question 1 required:

Auditors are required to perform test of details of transactions to detect material misstatements at the assertion level. The assertions relevant to transactions are completeness, occurrence, cutoff and accuracy.

2

(a) Explain the following assertions in the context of Tintin's sales transactions. Your explanation should include the misstatement at the assertion level, i.e. whether sales transactions would be overstated or understated if there are issues related to the assertion:

- | | | |
|--------------|--------------|-----------------|
| (i) | Completeness | (1 mark) |
| (ii) | Occurrence | (1 mark) |
| (iii) | Cutoff | (1 mark) |
| (iv) | Accuracy | (1 mark) |

Note: It is not necessary to apply the case scenario in your answer.

3

(b) Using the information provided in the case, identify and explain the assertion that is the MOST susceptible to misstatement in Tintin's sales transactions. **(3 marks)**

4

(c) Using the information provided in the case, design **TWO** tests of details of transactions to be performed on the sales account in relation to the following assertions:

- | | | |
|--------------|--------------|------------------|
| (i) | Completeness | (2 marks) |
| (ii) | Occurrence | (2 marks) |
| (iii) | Cutoff | (2 marks) |
| (iv) | Accuracy | (2 marks) |

Note: Your answer should include the source from which you would select your samples for the performance of the test of details, e.g. from the Order Book, or the sales invoices, or the sales journal.

5 **(d)** Describe the audit procedures to be performed to confirm that all the cash collected from sales are fully deposited into the bank account. **(2 marks)**

6 **(e)** Amy is willing to pass you a copy of the Excel spreadsheet of the Order Book. Provide FOUR suggestions on how you could use it to automate some of the tests of details. **(8 marks)**

Note: You are NOT required to describe any Excel formula in your explanation.

(Total: 25 marks)

Question 2 – (a) to (j)

Still Private Ltd (Still) is a company trading in stationery supplies. It sells to regular corporate customers who buy on credit. All customers are in Singapore. Most customers pay cash on delivery. Some customers pay via bank transfer. Its financial year end is 31 May 2023.

You are the audit assistant assigned to audit the bank reconciliation, payables reconciliation and receivables reconciliation prepared by the accounts clerk of Still. Still has 2 cash books: 1 for cash at a bank account and 1 for cash on hand.

The accounts clerk prepares the year-end bank reconciliation as follows:

		<u>\$</u>
A	Balance per bank statement	47,970
	Less: Bank transfer deposit from customers not recorded in cash book	
B		
B1	(1) Reference number 176923	28,123
B2	(2) Reference number 982124	<u>19,877</u> -48,000
C	Add: Bank fees not recorded in cash book	30
D	Add: Cash on hand	1,000
E	Balance per cash book	<u>1,100</u> ^

^ = audit procedure performed – cast the bank reconciliation

**e-Exam
Question
Number**

Question 2 required:

7

(a) For each of the following items, state ONE audit procedure to be performed to confirm it is correctly stated in the bank reconciliation:

(i) A – balance per bank statement **(1 mark)**

(ii) B1 – bank transfer deposit reference 176923 **(1 mark)**

(iii) E – balance per cash book **(1 mark)**

8

(b) For items (B1) and (B2) indicated in the bank reconciliation, besides a recording error in the cash book or an error in the bank statement, provide ONE reason why they have not been recorded in the cash book.

(2 marks)

9

(c) For item (C), explain whether an adjustment should be made to the cash book and the income statement.

(2 marks)

10

(d) For item (D), explain whether it should be included in the bank reconciliation.

(2 marks)

11

(e) For item “^” (i.e. cast the bank reconciliation), describe the implication(s) if the result of the casting shows that the figures do not add up, such as in this case.

(2 marks)

Payables Reconciliation – Supplier A

			\$
F	Balance per confirmation reply		<u>28,000</u>
G	Less: Invoices not recorded in payables ledger		
G1	(1) Invoice 2333	1,100	
G2	(2) Invoice 2380	900	-2,000
H	Less: Payment not included in confirmation reply		-100
I	Balance per payables ledger		<u>25,900</u>

**e-Exam
Question
Number**

Question 2 required:

12

(f) For items (G1) and (G2), explain whether they should have been included in the payables ledger. Your answer should include both scenarios:

(i) When they should have been included in the payables ledger. **(2 marks)**

(ii) When they should not have been included in the payables ledger. **(2 marks)**

Receivables Reconciliation – Customer X

	<u>\$</u>
Balance per confirmation reply	8,000
J Add: Payment via bank transfer received but not recorded in receivables ledger; reference number 176923	28,123
K Add: Invoice 12333 not included in confirmation reply due to goods returned on 28 May 2023	9,877
Balance per receivables ledger	<u>46,000</u>

e-Exam Question Number

Question 2 required:

13

(g) State the audit procedure to be performed to verify the following items:

(i) Item (J) – bank transfer received but not recorded in receivables ledger. **(1 mark)**

(ii) Item (K) – invoice not included in receivables confirmation reply. **(1 mark)**

14

(h) Explain whether item (J) should be reflected in the bank reconciliation as well. **(2 marks)**

**e-Exam
Question
Number**

Question 2 required:

15

- (i)** Explain how items (J) and (K) should be recorded in the accounts for the year ended 31 May 2023.

(4 marks)

16

- (j)** Given the cost of goods returned is \$3,300, state the journal entries to record item (K).

(2 marks)

(Total: 25 marks)

Question 3 – (a) to (e)

You are an audit assistant assigned to audit subsequent events of Esop Pte Ltd (Esop)'s financial statements for the year ended 31 May 2023. Esop's main business activity is the selling of customised mechanical computer keyboards. Esop's main customers are e-gamers who want to have personalised computer keyboards. Esop purchases different keyboard components from online suppliers and charges its customers based on the cost of components required and the customisation service fee.

Materiality has been determined to be \$280,000 (5% of profit before tax) in the approved audit planning memorandum.

You are instructed by the audit senior to perform the following audit procedures:

- Review the bank statements from 1 June 2023 until 30 September 2023.
- Review the minutes of Directors' meeting from 1 June 2023 until 30 September 2023.
- Review journal entries posted to the general ledger from 1 June 2023 until 30 September 2023.

After performing the above audit procedures, you have identified the following information of interest:

- Cash deposit of \$1 million recorded in the August 2023 bank statement.
- Cash withdrawal of \$300,000 recorded in July 2023 bank statement.

The minutes of Directors' meeting documented:

- 100,000 ordinary shares of \$10 per share to be issued to a new shareholder who is expected to inject cash into Esop in August 2023.
- Damages of \$300,000 will be paid in an out-of-court settlement to Rager Foo, a customer who filed a legal claim against Esop on 1 April 2022 for severe personal injury through an electric shock from using Esop's keyboard.

You highlighted this information to the audit senior who expressed surprise that these events were not reflected in the financial statements and were news to him.

**e-Exam
Question
Number**

Question 3 required:

17

(a) Explain how the share issue in August 2023 and legal claim initiated on 1 April 2022 should be reflected in the financial statements for the year ended 31 May 2023.

(i) Share issue **(3 marks)**

(ii) Legal claim **(5 marks)**

18

(b) In relation to the legal claim, describe **TWO** audit procedures to be performed to:

(i) Confirm a legal claim was filed against Esop on 1 April 2022. **(2 marks)**

(ii) Confirm the payment made in July 2023 was for the full settlement of the legal claim.

(2 marks)

In the minutes of Directors' meeting, some Directors expressed concern that it may be necessary to withdraw this particular keyboard product from sale.

**e-Exam
Question
Number**

Question 3 required:

- 19** **(c)** Explain the implications of the Directors' concern on the VALUATION of inventory. **(3 marks)**
- 20** **(d)** If the legal claim issue is not appropriately reflected in the financial statements, explain the implications on the audit opinion to be issued. Your answer should include:
- An explanation of whether the issue involves a misstatement, a lack of audit evidence or a going concern uncertainty. **(2 marks)**
 - An appropriate audit opinion to be issued. **(2 marks)**
 - Justification for the audit opinion you suggest be issued. **(3 marks)**
- 21** **(e)** If the legal claim issue is appropriately reflected in the financial statements:
- (i)** State the implications on the audit opinion to be issued. **(1 mark)**
 - (ii)** Explain whether it is necessary for an Emphasis of Matter paragraph to be added in the audit report to highlight the legal claim issue. **(2 marks)**
- (Total: 25 marks)**

Question 4 – (a) to (e)

You are an audit senior in Reasonable Assure LLP (RAL), a public accounting firm. You are assigned the responsibility to mentor 5 interns from a local tertiary education institution for the next 2 weeks.

One of the interns read about the exemption of audit for small companies from the Accounting and Corporate Regulatory Authority (ACRA) website. The audit exemption is available for “small companies”. A company qualifies as a small company if:

- (a) it is a private company in the financial year in question; and
- (b) it meets at least 2 of 3 following criteria for the immediate past two consecutive financial years:
 1. total annual revenue \leq \$10m;
 2. total assets \leq \$10m;
 3. no. of employees \leq 50.

The intern noticed that some of the companies that qualify for audit exemption still engage RAL and she does not understand why these companies would do so.

**e-Exam
Question
Number**

22

Question 4 required:

- (a) Explain to the intern THREE advantages to these companies arising from having their financial statements audited.

(6 marks)

The intern also heard about ACRA's Practice Monitoring Programme (PMP) which aims to maintain the high quality of audits in Singapore. However, she does not know how the PMP process can achieve this objective.

**e-Exam
Question
Number**

23

Question 4 required:

(b) Provide a brief explanation on how the PMP process contributes to the high quality of an audit.

(4 marks)

Your firm's quality policies require the following factors to be considered in deciding whether to accept a client relationship and specific engagements:

- (a) Is the firm competent to perform the engagement and has the capabilities, including time and resources, to do so;
- (b) Can the firm comply with relevant ethical requirements; and
- (c) Has the firm considered the integrity of the client, and does it have information that would lead it to conclude that the client lacks integrity.

A potential client, X, approaches your firm to provide an audit of its financial statements as required by the Companies Act. You are assigned the task of using this as a case study to educate the interns on client acceptance considerations. The following information is available for potential client X:

- X is registered in Singapore and is not a listed company. Its principal activities are the growing of fruit trees in Indonesia and related businesses. Some of the fruits harvested are sold in both the local market and for export, either without processing, or with processing by factories owned by X into tinned fruit and fruit juices. X has 2 plantations located in different parts of Indonesia. Each plantation occupies land about the size of Ang Mo Kio town.
- The timing of the audit will be right in the middle of the audit peak season for the firm. If this engagement is accepted, it will be the firm's first audit client in the manufacturing industry and agricultural industry. The audit engagement team will also have the rare experience of performing the audit overseas for an extended period of time. This is because RAL does not have an office in Indonesia and does not have a network firm in Indonesia either.
- The management of X alluded to the firm that if the firm is able to perform an audit without disrupting its activities (such as visiting the plantations) and without any negative implications on the audit opinion issued, X is willing to pay a higher audit fee for such a premium service.

**e-Exam
Question
Number**

Question 4 required:

24

- (c)** Using the information provided, evaluate and conclude on whether the firm should accept this client relationship and the audit engagement, in accordance with the firm's quality policies. **(8 marks)**

RAL's policy requires the firm to request the current audit firm of a potential new client to provide known information regarding any facts or other information of which, in the current auditor's opinion, RAL needs to be aware of before deciding whether to accept the engagement. This process is commonly known as the professional clearance process.

**e-Exam
Question
Number**

Question 4 required:

25

- (d)** Provide ONE example of an advantage of RAL obtaining information from a potential new audit client's current auditor prior to making the acceptance decision. **(2 marks)**

An intern is interested in how the existing auditor of a potential new audit client should respond when they receive a request from RAL to provide information.

**e-Exam
Question
Number**

26

Question 4 required:

(e) Describe how the current auditor of X should respond:

(i) If the potential new audit client consents to the current auditor disclosing any such information to RAL.
(2 marks)

(ii) If the potential new audit client refuses to grant the current auditor permission to discuss X's affairs with RAL.
(3 marks)

(Total: 25 marks)

END OF PAPER

Appendix A – Common verbs used by the Examiners

Verb	Description
Conclude / Draw conclusions	Form a judgment, or determine the outcome, or resolve an issue, by using the facts presented. An example might be "Conclude whether to outsource the human resource function".
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.
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.
Justify	Whenever you see the word justify you <u>must</u> provide reasons for your answer, in other words, provide support for your argument or conclusion. If you fail to justify your answer, you will lose valuable marks. Justify is similar to defend .
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 ...".
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.
Use / Using	This instruction tells you the type of model that you must use when formulating your answer. For instance, " Using the <u>Discounted Cash Flow approach</u> , ..." tells you what valuation approach to use.

Verb	Description
	Another common phrase is “ Using the facts of the case, ...”, which tells you that you must relate your answer to the specific facts given in the question scenario. Generic answer are unlikely to pass.