PP

Singapore CA Qualification Examination

9 December 2024

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-SIX (26)** 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 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 exam 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 2024.

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. **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

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

Question 1 – (a) to (d)

As an audit manager of Nelly LLP, you are entrusted to manage the audit of DiWi Pte Ltd ("DiWi"), a wholly owned subsidiary of DiWi Seiko Co. Ltd, a company incorporated in Japan, for the financial year ended 30 September 2024 ("FY2024"). The principal activities of DiWi are manufacturing and trading in digital weighing scales. DiWi's major customers include major supermarket chains in Singapore.

DiWi emphasises the importance of creating a positive work environment and team collaboration, guided by a set of Standard Operating Procedures ("SOPs"). Employees are regularly reminded of the importance of adhering to the SOPs.

Management meetings are conducted monthly. The actual performance of DiWi is compared against the budget set at the beginning of the year and a monthly financial forecast is prepared. For FY2024, the holding company expects that local management will achieve revenue that is 15% higher than FY2023's revenue. The performance bonuses of the General Manager ("GM") and Finance Manager ("FM") are directly tied to the revenue target set by the holding company.

DiWi enjoys very low attrition rate. In FY2023, the GM was honoured with a 15-year long-serving award. The FM has been conferred and awarded the prestigious title of Fellow Chartered Accountant of Singapore, FCA, recently.

The Finance team comprises five (5) Accounts Executives with the FM overseeing the entire Finance function of the company. Manual journal vouchers are prepared by the Accounts Executives and authorised by the FM before they are posted into the accounting system.

Upon your review of prior audit documentation for the financial year ended 30 September 2023, the following documentation that remains relevant for FY2024 were noted:

- Revenue from the sales of the digital weighing scales is recognised at a point in time when the performance obligation is satisfied upon the transfer of the digital weighing scale to the customer. Control of the digital weighing scales is transferred to the customer on delivery of the digital weighing scales (in this respect, incoterms are considered).
- The Sales team maintains an Approved Price List, which is updated quarterly. Any discounts given to customers that are 10% or less are approved by the Sales Manager. Discounts that are more than 10% are duly approved by the GM.
- The Finance team records sales upon invoicing. Therefore, as part of the financial closing process, the Finance team reviews the sales invoices and their corresponding delivery orders (acknowledged by customers) issued 10 days before and after the month-end to ensure that the sales invoices are recorded in the appropriate accounting period.

e-Exam Question Number	Question 1 required:
2	**(a)** Nelly LLP uses a 3-point response scale of Low, Medium and High, for rating the financial statements' risk. Identify **ONE (1)** relevant financial statement level risk and rate the risk level using the 3-point response scale. Provide a relevant reason for your assessment. **(3 marks)**
3	**(b)** Nelly LLP uses a 3-point response scale of Low, Medium and High for rating assertion-level risks. Evaluate the following assertion-level risks for revenue based on the inherent risk factors, **Complexity, Subjectivity, Change, Uncertainty and Susceptibility** to misstatement due to management bias and other fraud risk factors, by assessing their likelihood and magnitude using the 3-point response scale. Tabulate your answers in the format below:

Assertion	**Likelihood** (A) *(L, M, H)*	**Magnitude** (B) *(L, M, H)*	**Inherent risk** (A X B) *(L, M, H)*	**Justification** *(L, M, H)*
	(3 marks for each assertion)			**(1 mark for each justification)**
Occurrence				Complexity: Subjectivity: Change: Uncertainty: Susceptibility:
Completeness				Complexity: Subjectivity: Change: Uncertainty: Susceptibility:

(16 marks)

e-Exam Question Number	Question 1 cont.
4	**(c)** After discussion with the engagement team, you have determined that it is more effective and efficient to adopt a combined approach for the audit of revenue. Assuming that the engagement team is satisfied with the design effectiveness and implementation of the controls around the occurrence, accuracy and cut-off revenue, complete the table for the test of control procedures that you intend to perform. For **<u>each</u>** procedure performed, indicate the test of control objective.

Relevant Assertion	Control Objectives (1 mark each)	Test of Control Procedures (2 marks each)
1. Occurrence		
2. Accuracy		
3. Cut-off		

(9 marks)

5	**(d)** The responsibility of the auditors extends to the date they sign the auditor's report. Describe **TWO (2)** subsequent events procedures that you would perform for DiWi.

(2 marks)

(Total: 30 marks)

Question 2 – (a)

You have been auditing the financial statements of Teophys Pte Ltd ("Teophys") for the last two (2) financial years ended 31 December 2022 ("FY2022") and 2023 ("FY2023"). In the previous financial years, Teophys provided services, such as marketing and after-sales services, to its distributors. As of 1 January 2024, Teophys changed its business model from a service company to a distributor of a specialised industrial chemical used for hydrocarbon drying. Consequently, the functional currency of Teophys was changed from **Singapore dollars (S$) to United States Dollar (US$)** to reflect the primary currency influencing the sales prices, labour, material, and other costs. The following exchange rates were used to convert the balances as of 1 January 2024 from the S$ to US$.

Accounts	**Exchange rate used**
Assets and liabilities	Closing rate as of 31 December 2023
Share capital	Historical rate
Dividends paid	Historical rate
Retained earnings	Historical rate
Items in profit or loss account for FY2023	Average rate for FY2023

e-Exam Question Number	**Question 2 required:**
6	**(a)** Describe and explain **ONE (1)** audit procedure that you would perform to ascertain whether the change in the functional currency of Teophys is appropriate <u>and</u> **TWO (2)** audit procedures that you would perform to ascertain whether the balances as of 1 January 2024 were converted accurately. **(10 marks)** **(Total: 10 marks)**

Question 3 – Parts I to III

Part I

PlasPlus Limited ("PPL") has recently appointed your firm KPH PAC ("KPH") as its auditors for the year ending 31 December 2024 ("FY2024"). You have recently been promoted to Senior Manager of KPH and have been entrusted with the role of engagement manager for the PPL audit engagement.

PPL is a private company incorporated in Singapore. It was co-founded by Ranon Wang, Chairman of the Board of Directors, and Dominic Brown, the Chief Executive Officer, in 2016. PPL focuses on the research and production of a Polyhydroxyalkanoates compound named Solon, aimed at replacing conventional plastics. Solon has several key properties, including 100% biodegradable without forming microplastics and versatility for single-use applications, thus positioning itself as a viable and preferred alternative to petroleum-based plastics.

PPL has conducted five rounds of fund-raising exercises to date, and the funds raised were used to fund research and development, and capital expenditures. PPL has developed a proprietary production process to maximise its operational efficiency and production of high-quality Solon.

The management has provided you with the audited financial statements for the year ended 31 December 2023 ("FY2023") that were audited by its predecessor auditors.

Below is an Extract of the Audited Statement of Financial Position as of 31 December 2023.

Extract of the Audited Statement of Financial Position as of 31 December 2023

	USD$'000
ASSETS	
Current assets	
Cash and bank balances	69,000
Other receivables	2,000
Inventories	1,500
	72,500
Non-current assets	
Property, plant and equipment	72,000
Right-of-use assets	530
	72,530
Total assets	**145,030**
LIABILITIES AND EQUITY	
Current liabilities	
Other payables	13,000
Convertible bonds	10,500
Lease liabilities	260
	23,760
Non-current liabilities	
Lease liabilities	290
Long-term borrowings	20,980
	21,270
Equity	
Share capital	197,000
Other reserve	3,000

Accumulated losses	(100,000)
	100,000
Total liabilities and equity	**145,030**

e-Exam Question Number	**Question 3 Part I required:**
7	

(a) SSA 510 *Initial Audit Engagements* requires the auditors to obtain sufficient appropriate audit evidence about whether the opening balances contain misstatement that materially affects the financial statements for the year ending 31 December 2024.

Assume that you are unable to review the predecessor auditors' work papers. For **each** of the opening balances below, describe **ONE (1)** audit procedure, other than agreeing the opening balances to the prior audited financial statements that you would be required to perform and specify **at least TWO (2)** relevant assertion(s) that each audit procedure addresses.

Tabulate your answers as follows:

Opening balance	**Audit procedure and relevant assertions (2 marks each)**
Cash and bank balances	
Inventories	
Long-term borrowings	

(6 marks)

e-Exam Question Number	Question 3 Part I required:

8

(b) Upon further examination of the audited financial statements for the year ended 31 December 2023, the note to Property, plant and equipment discloses that an impairment charge of US$10 million is recorded against the Property, plant and equipment. Additionally, in the note to Other receivables, it is disclosed that a Stage 1 Expected Credit Loss ("ECL") of US$0.5 million was made against a third-party receivable on 31 December 2023. The accounting policy of the Company requires that Stage 1 ECL based on 12-month expected losses should be made if the credit risk has not increased significantly.

Describe **TWO (2)** audit procedures, other than agreeing the opening balances to the prior audit documentation, that you would perform to ascertain the accuracy, valuation and allocation of Property, plant and equipment as well as Other receivables and tabulate your answers as follows:

Opening balance	**Audit procedure**
Impairment charge against Property, plant and equipment	1. (2 marks) 2. (2 marks)
ECL for Other receivables	1. (2 marks) 2. (2 marks)

(8 marks)

Part II

During the planning stage of the audit, the management has provided you with the management accounts for the period ending 30 September 2024. The following matters came to your attention:

Preferred Shares

PPL issued the 18,800,000 of Series A2 preferred shares during the current financial period. The details of the Series A2 preferred shares are as follows:

	Number of shares	**USD'000**
Preferred shares	18,800,000	185,000

The Series A2 preferred shares are redeemable only at PPL's option and any dividends are discretionary. In the event of liquidation of PPL, the net proceeds shall be distributed among the A2 preferred shareholders on a pari-passu basis prior to any distribution to ordinary shareholders.

Given the terms of the preferred shares, management asserted the preferred shares should be classified as equity because the Series A2 preferred shares are redeemable only at PPL's option and any dividends are discretionary.

Intangible Asset

PPL has recognised an intangible asset amounting to $300,000. This intangible asset comprises a fee paid to TUV Austria, a globally recognised certification agency to certify that the Solon is biodegradable in the soil and water and does not break down into microplastics and has no health concerns for human beings.

The accounting policy of PPL is to recognise intangible assets initially at cost. Following initial recognition, the intangible asset is carried at cost less accumulated amortisation and any accumulated losses. An intangible asset is recognised only when:

1. The intangible asset is identifiable,
2. Future economic benefits flow from the intangible asset to the entity, and
3. The cost of the intangible asset can be reliably measured.

e-Exam Question Number	**Question 3 Part II required:**
9	**(a)** Identify **ONE (1)** risk of material misstatement for **<u>each</u>** of the subject matter as described above <u>and</u> provide **TWO (2)** audit procedures to address the risks. Tabulate your answers as follows:

Risk of material misstatements (1 mark each)	**Audit Procedure (4 marks for each category)**
Classification of preferred shares	1. (2 marks) 2. (2 marks)
Recognition of the intangible asset	1. (2 marks) 2. (2 marks)

(10 marks)

Part III

When designing and performing substantive analytical audit procedures, the auditors shall evaluate the reliability of the data from which the auditor’s expectation of the recorded amounts is developed, taking account of the source, comparability and nature and relevance of information available.

e-Exam Question Number	**Question 3 Part III required:**

10

(a) Identify **ONE (1)** relevant audit procedure to be performed for **each** of the categories of employee to ascertain the reliability of data in the Payroll summary report in order for the engagement team to rely on before ascertaining the reasonableness of the payroll expenses, a substantive analytical audit procedure, for PPL for the financial year ending 31 December 2024.

<table>
<tr><th>Category of the employee</th><th>Relevant audit procedure
(6 marks)</th><th>List of information available</th></tr>
<tr><td>New joiners</td><td>[Hint: To ascertain whether the details of joiners are accurately recorded in Payroll summary and the General ledger.]
(2 marks)</td><td rowspan="3">1. Employment contract
2. Attendance report
3. Payroll summary report
4. Exit interview form and clearance form
5. General ledger

[All information listed above should be used in your answers.]</td></tr>
<tr><td>Resignees</td><td>[Hint: To ascertain whether the details of the resignees are removed from the Payroll summary and the General ledger on a timely basis.] (2 marks)</td></tr>
<tr><td>Existing employees</td><td>[Hint: To ascertain whether the details of employees are accurately recorded in the Payroll summary and the General ledger.]
(2 marks)</td></tr>
</table>

(6 marks)

(Total: 30 marks)

Question 4 – Parts I to IV

Part I

As an audit manager of PeterNelson PAC, you are responsible for the audit of Dragon Holdings Pte Ltd ("Dragon Holdings") and its subsidiary companies (collectively, the "Group") for the year ended 31 March 2024 ("FY2024"). Dragon Holdings wholly owned two subsidiaries, ENT Ltd, incorporated in the United Kingdom and PT Entertainment, incorporated in Indonesia. Your firm is required to issue an independent auditor's report for Dragon Holdings and the Group's financial statements.

The principal activities of one of Dragon Holdings' subsidiaries, ENT Ltd, relate to film distribution and advertising services.

ENT Ltd, as a cash-generating unit (CGU), is in a net liabilities position of S$80 million and has incurred a net operating loss of S$200 million with revenue generated of S$100 million during FY2024. You have therefore requested management to perform an assessment of the recoverable amount of the CGU. The management has prepared a <u>Cash flow Projection</u> to support management's assertion that no impairment loss needs to be recognised for the CGU as the recoverable value (value-in-use) is well above the carrying amount of the CGU.

Cash flow Projection

		2025	**2026**	**2027**	**2028**	**2029**
	Note	**S$'000**	**S$'000**	**S$'000**	**S$'000**	**S$'000**
Revenue	(1)	200,000	400,000	450,000	500,000	550,000
Revenue growth		100%	100%	12.5%	11%	10%
EBITDA	(2)	(100,000)	100,000	150,000	200,000	250,000
Less: Changes in working capital	(3)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
Free cash flows		(120,000)	80,000	130,000	180,000	230,000

Present value factor	(4)	0.9091	0.8264	0.7513	0.6830	0.6209
Present value		(109,091)	66,116	97,671	122,942	142,812
Terminal value	(5)					1,820,852
Total value-in-use						2,141,302

Notes:

Management assumptions and justifications

1. The CGU business has dropped from the previous year by approximately 75% as a result of increasing competition from NetSurf, a streaming service that offers a wide variety of on-demand programmes. Management is of the view that the recent drop in revenue **does not** serve as a good basis for comparison because NetSurf is a mere fad and they are confident of the high-quality content that ENT Ltd offers to its loyal customers. The management has projected that FY2025 will be a harvest year for the CGU as they have significantly strengthened their sales and marketing functions. Additionally, the entity has invested in a state-of-the-art digital platform powered by Generative Artificial Intelligence which will enable management to better understand their customers' needs and purchasing habits. The digital platform is in use as of 25 November 2023. The average monthly sales derived from the digital platform from 25 November 2023 to 31 March 2024 was approximately S$1 million. Management is of the view that the digital platform will enable them to generate exponential growth in revenue month-on-month on top of what the CGU is currently generating. Based on historical data, management can achieve a historical peak revenue target of S$150 billion in 2020. Revenue growth between FY2020 to FY2023 ranged from 30% to 50%.

2. EBITDA is derived after adding back depreciation and amortisation expenses. Maintenance cost for the digital platform is not included as management has represented the maintenance cost as negligible.

3. Management is of the view that the changes in working capital will remain unchanged regardless of the increase in revenue.

4. The discount rate of 10% per annum is based on the weighted average of the cost of capital calculated using the relevant inputs from established financial information providers.

5. The terminal value is computed using a long-term GDP growth rate of 2%.

6. Management is of the view that capital expenditure (CAPEX) is negligible and insisted that no CAPEX should be included in the cash flow projections.

e-Exam Question Number	Question 4 Part I required:
11	**(a)** You understand from the preparer that he has no prior knowledge of preparing such projection. Additionally, the Cash flow Projection has not been reviewed by any independent party. The engagement partner has instructed the engagement team to focus on the following areas for the audit of the Cash flow Projections: 1) Revenue, 2) EBITDA, 3) CAPEX, 4) Working capital and 5) Discount rate.

Based on the management's value-in-use assessment, identify and explain **THREE (3)** management assumptions that you are sceptical about. Describe and explain **ONE (1)** audit procedure that you would perform to address your scepticism for **each** of the three management assumptions. Tabulate your answers as follows:

Management assumption (3 marks each)	**Audit procedure (2 marks each)**
1.	
2.	
3.	

(15 marks)

Part II

Dragon Holdings also directly owns a 100% subsidiary, PT Entertainment, a company incorporated in Indonesia, focusing solely on sales of film distribution rights. For FY 2023 and the previous financial years, the subsidiary's financial statements have never been consolidated in the Group financial statements. Based on the records for the last 5 financial years, the revenue of the subsidiary is approximately 60% of the Group's revenue.

e-Exam Question Number	**Question 4 Part II required:**
12	**(a)** What type of audit opinion would you expect to issue if the subsidiary remains unconsolidated for FY2024? Provide your justification for the type of audit opinion that you are expected to issue. **(2 marks)**

Part III

The Senior-in-charge of the engagement team has recently resigned, requiring you to directly review the work papers for Dragon Holdings Pte Ltd prepared by a junior member of your engagement team. The Performance Materiality for revenue is S$75 million. The test of details for the occurrence of revenue relating to the sales of the film rights recorded on the general ledger for FY2024 was performed by vouching them to the Delivery Order ("DO"), as summarised in the following table:

Customer	Delivery Order	Date of customers' acknowledgement on the DO	Amount (S$)
#A	DO 5626	1 April 2024	76,607,100
#B	DO 2311	8 August 2023	5,991,000
#C	DO 3470	5 September 2023	4,400,000
#D	DO 0346	9 May 2023	109,800,000
#E	DO 6571	5 April 2024	5,680,000

e-Exam Question Number	**Question 4 Part III required:**
13	**(a)** Identify and explain **TWO (2)** unusual observations from the above table. **(3 marks)**
14	**(b)** Identify and explain **THREE (3)** appropriate courses of action arising from the observations identified in **part III (a)** above. **(3 marks)**

Part IV

The cashflow projections for the Group reveal an ambitious growth trajectory, with revenue expected to soar from $1 billion in FY2024 to $10 billion in FY2025, and to $100 billion in 2026. The projections for the Group indicate a positive boost to profitability and operational efficiency, driven by the expected accelerated demand for the film industry.

The current geopolitical climate and economic uncertainties have posed significant financial challenges to Dragon Holdings. As of 31 March 2024, the Group only has adequate funds to continue its operations for the next nine months. As a result, on 23 May 2024, before the date of signing of the financial statements, the Group has secured a collateralised bridging loan which matures on 31 March 2026. The Group is concurrently working with an international financial institution to structure a long-term loan. With the collateralised bridging loan, the management has confidently asserted that the Group could undoubtedly continue as a going concern for at least 12 months from the reporting date, i.e., at least until 31 March 2025, with adequate liquidity and without the need to implement any cost-cutting measures.

e-Exam Question Number	Question 4 Part IV required:	
15	**(a)**	Given the circumstances described above, outline **THREE (3)** specific areas that should be included in the **Going Concern disclosure note** in the financial statements for the financial year ending 31 March 2024. You are not required to draft Notes to be disclosed in the financial statements. **(5 marks)**
16	**(b)**	Assuming that management has included the appropriate disclosure in the financial statements and the auditors concurred with management's assertion that the Group will have the ability to continue as a going concern for at least 12 months from the reporting date, state the appropriate audit opinion <u>and</u> discuss the factor(s) that you would take into consideration to support the audit opinion. **(2 marks)** **(Total: 30 marks)**

END OF PAPER