

Singapore CA Qualification Examination
7 December 2021
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-ONE (21)** pages (including this instruction sheet and Appendices A, B and C). 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 SAC's regulations. Please note that 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 Singapore Accountancy Commission.

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 2021.

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
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****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.
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 numbers:
+65 6100 0516

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

Question 1 – (a) and (b)

You are assigned to audit the financial statements of Apps1 Pte Ltd (A1) for the year ended 31 December 2021. The approved audit strategy requires the use of data analytics to analyse the payment, receipt and cash transactions to identify transactions for further investigation.

A1 maintains one bank account with CCC Bank for all deposits and withdrawals except payroll payments. A separate bank account with DD Bank is maintained specifically for payroll payments only. On payroll day, a sum of money equivalent to the total net pay will be transferred from the CCC bank account to the DD bank account via electronic transfer (FAST transfer). Payment is then transferred from the DD bank account to the employees' bank accounts. The payroll payment includes payment to all Management staff, such as the Chief Executive Officer, who is also a Director of A1, and the Finance Manager.

Payments to accounts payable are via cheques through the CCC bank account. Receipts from receivables are deposited into the CCC bank account. A1 does not sell on cash terms.

The Finance Manager approves all payment vouchers, and the Chief Executive Officer is the sole bank signatory to both bank accounts.

The Finance Manager, who is the Head of Accounting and Finance department, has provided you with the following spreadsheets:

- Payment Voucher transactions from 1 December to 31 December 2021 (Appendix A);
- Cash Book transactions from 1 December to 31 December 2021 (Appendix B); and
- CCC Bank Statement transactions from 1 December to 31 December 2021 (Appendix C).

Assume today is 15 January 2022.

Appendix A

Payment Voucher transactions from 1 December to 31 December 2021

PV No.	PV Date	Amount (\$)	Description
1201	1.12.2021	100,000.00	Payee = CEO
1202	6.12.2021	7,618.40	Payables
1203	9.12.2021	630.23	Payables
1204	10.12.2021	5,457.00	Payables
1205	14.12.2021	3,093.37	Payables
1206	15.12.2021	10,561.97	Payables
1207	16.12.2021	2,376.47	Payables
1208	19.12.2021	5,000.00	Miscellaneous
1209	17.12.2021	13,872.55	Payables
1210	27.12.2021	4,387.00	Payables
1211	22.12.2021	140,000.00	Payee = CEO
1212	29.12.2021	167,380.00	Payroll

Appendix B

Cash Book transactions from 1 December to 31 December 2021

Date	PV No./AR No.	Deposit	Withdrawal	Balance
1.12.2021				308,429.00
1.12.2021	1201		100,000.00	208,429.00
7.12.2021	1202		7,618.40	200,810.60
10.12.2021	1203		630.23	200,180.37
13.12.2021	1204		5,457.00	194,723.37
15.12.2021	1205		3,093.37	191,630.00
15.12.2021	AR1201	23,750.00		215,380.00
16.12.2021	1206		10,561.97	204,818.03
17.12.2021	1207		2,376.47	202,441.56
17.12.2021	AR1202	34,700.00		237,141.56
17.12.2021	Cash	100,000.00		337,141.56
18.12.2021	1209		13,872.55	323,269.01
21.12.2021	1210		4,387.00	318,882.01
22.12.2021	1211		140,000.00	178,882.01
30.12.2021	1212		167,380.00	11,502.01
30.12.2021	AR1203	38,800.00		50,302.01
31.12.2021	Cash	50,000.00		100,302.01

Appendix C

CCC Bank Statement transactions from 1 December to 31 December 2021

Date	Description	Deposit	Withdrawal	Balance
1.12.2021				308,429.00
2.12.2021	Funds Transfer - FAST		100,000.00	208,429.00
13.12.2021	Cheque 321400		7,618.40	200,810.60
16.12.2021	Cheque 321401		630.23	200,180.37
16.12.2021	ABC Bank 798021	23,750.00		223,930.37
17.12.2021	Cash	100,000.00		323,930.37
18.12.2021	XZZ Bank 089102	34,700.00		358,630.37
19.12.2021	Cash		5,000.00	353,630.37
20.12.2021	Cheque 321402		5,457.00	348,173.37
22.12.2021	Cheque 321403		3,093.37	345,080.00
22.12.2021	Cheque 321404		10,561.97	334,518.03
22.12.2021	Cheque 321405		2,376.47	332,141.56
22.12.2021	Funds Transfer - FAST		140,000.00	192,141.56
24.12.2021	Cheque 321406		13,872.55	178,269.01
24.12.2021	Cheque 321407		4,387.00	173,882.01
30.12.2021	Funds Transfer - FAST		167,380.00	6,502.01

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Question 1 required:

2 **(a)** From the THREE appendices (i.e. Appendix A, B, C) provided, identify and explain SEVEN individual transactions that require further investigation. For each transaction, your answer should include ONE reason for further investigation.

(21 marks)

3 **(b)** Assuming significant control deficiencies were confirmed upon further investigation, discuss:

i. How the significant control deficiencies should be communicated to the Management and those charged with governance. **(1 mark)**

ii. Whether the significant control deficiencies should be communicated in the auditor's report on the financial statements. **(3 marks)**

(Total: 25 marks)

Question 2 – (a) to (e)

Berry Paint Pte Ltd (BP) is a new audit client of your firm. You are the audit senior assigned to lead the audit assistants in this audit engagement. The financial year of BP is ending 31 December 20x1.

BP is a family business that supplies paints and painting services to corporate customers, mainly property developers and construction firms. A typical product sales contract would be delivering large quantity of paints to construction sites. A typical paint service contract would be supplying the paints and carry out the painting service for the entire property under development or maintenance.

Your audit assistants have documented the following sale processes of BP.

Product sales workflow

For product sales, customers place orders through phone by calling the Company Sales call centre which is manned by one call centre staff. The call centre records the details of customer orders in a Sales Log (a record book) which includes the following details:

- Date of order
- Customer name
- Product code
- Quantity
- Price per unit
- Delivery date
- Delivery address

As the volume of orders per day is low, the call centre staff is also tasked to prepare two copies of each delivery note. One copy is handed over to the storeman cum delivery driver. The other copy is handed over to the accounting department. The call centre staff then records the delivery note number in the Sales Log. The delivery notes are sequentially numbered and are prefixed with the letter A to designate these as Product Sales delivery. An extract of the Sales Log is as follows:

	Date of order	Customer name	Product Code	Quantity	Price per unit	Delivery Date	Delivery address	Delivery Note No.
1	3.1.20x1	A	111 121	2,000 1,000	80 70	13.1.20x1	1 Loyang Road	A001
2	3.1.20x1	C	099	3,000	50	13.1.20x1	3 Gul Way	A002
3	18.2.20x1	Z	201	500	100	28.2.20x1	123 Shenton Way	A003
4	10.3.20x1	H	201	300	100	20.3.20x1	11 Tampines Road	A004

As instructed by the Management, the call centre staff always quote the price in the product catalogue and quote a delivery lead time of ten days from the date of order. BP has been able to meet the delivery lead time of ten days since this policy was implemented two years ago.

The accounting staff generates the sale invoices in the accounting software based on the details in the delivery note. The invoice dates are the same as the date of order. Sale invoices generated are automatically recorded by the accounting software in receivables ledger and the general ledger (as revenue from sale of goods and trade receivables). The accounting staff prints two copies of the sales invoice. One copy is mailed to the customer and the other copy is filed together with the delivery note.

All customers are allowed to return unused products in the original packaging within 20 days from the delivery date. Goods returned by customers are recorded by the warehouse staff in a Sales Return Log. Accounting staff issue credit notes to

customers to offset the receivables. The accounting software automatically record the credit notes in the receivable ledger and the general ledger (a debit to revenue).

Service sale workflow

A Sales Manager meets customers such as property developers and construction firms to secure contracts to provide painting services. An example would be to paint all residential blocks and communal facilities of a condominium under construction. The contractual terms of a service contract include:

- Supply of paints as ordered by the customer – this is considered sold when delivered to the worksites and cannot be returned by the customer.
- Supply of painting service to be completed in a specified time schedule, usually within 2 months. Equipment such as scaffolding and gondola for high rise building painting will be provided by the customer.
- The customer agrees to a fixed fee arrangement for the service. If the painting project is abandoned, customer agrees to pay a partial amount of the fixed fee which is proportional to the extent of painting work completed. For example, if 2 out of 4 residential blocks are completed, customer will pay half of the fixed fee if the contract is terminated.

The cost incurred by BP will mainly be the labour cost. BP processes the sale invoices for the supply of paints in the same way as the Product Sales described above except that the transactions are recorded in a different sales log. The delivery notes are sequentially numbered and prefixed with the letter B to designate them as Service Sales.

BP generates the sale invoices for the entire service fee on the day when the service team is despatched to the worksites. Sales invoices are automatically recorded in the receivable ledger and general ledger (as revenue from service and trade receivables) by the accounting software.

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Question 2 required:

- 4** **(a)** Describe the audit procedures to be performed to confirm the documentation by your audit assistants on the sales system is accurate. **(2 marks)**
- 5** **(b)** Evaluate the risk of material misstatements of the revenue from the sale of products in terms of the **TIMING** of revenue recognition. Design audit procedures in response to the risk of material misstatements described.
- Risk of material misstatements – 4 marks
 - Audit procedures – 4 marks
- (8 marks)**
- 6** **(c)** Evaluate the risk of material misstatement of the revenue from the sale of products in terms of **MEASUREMENT** of the revenue. (Note: The answer should include comments on misstatements relating to revenue, cost of sales, inventory and refund liability and which accounts are likely to be overstated or understated). Design audit procedures in response to the risk of material misstatements relating to revenue as described.
- Risk of material misstatements – 4 marks
 - Audit procedures – 4 marks
- (8 marks)**

You will be meeting the Finance Manager to discuss specifically the revenue accounting of the service revenue by BP.

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Question 2 required:

7 **(d)** Explain why the current manner in which BP recognises revenue from services does not comply with the requirements in SFRS(I) 15 *Revenue from Contracts with Customers* and will result in misstatement in revenue from services.

(3 marks)

8 **(e)** Recommend an approach that BP should consider recognising revenue from services. Your answer should include an explanation on how this approach will recognise revenue from services in accordance with the requirements in SFRS(I) 15 *Revenue from Contracts with Customers*.

(4 marks)

(Total: 25 marks)

Question 3 – (a), (b) and (c)

Introduced in the Unity Budget in February 2020, the Jobs Support Scheme (JSS) provides wage support for employers to retain their local employees (Singapore Citizens and Permanent Residents) during this period of economic uncertainty due to the COVID-19 pandemic.

Under the JSS, the Government co-funds 25% to 75% of the first \$4,600 of gross monthly wages paid to each local employee in a 10-month period (up to August 2020) and 10% to 50% of the same in the subsequent 7-month period (September 2020 to March 2021). JSS was extended by up to 6 months from April 2021 to September 2021 with co-funding at 10% to 30%. The base tier of support each employer will receive depends on the sector in which the employer operates.

In order to qualify for JSS pay-outs, employers are required to make mandatory CPF contributions for their local employees (Singapore Citizens and Permanent Residents) by the stipulated contribution deadlines. Employers do not need to apply for the JSS. IRAS will notify eligible employers by post of the tier of support and the amount of JSS pay-out payable to them.

For example,

JSS Pay-out	Month of Pay-out	Pay-out computed based on wages paid in:	Wages derived based on mandatory CPF contributions paid on or before:
Pay-out 4	March 2021	September – December 2020	14 January 2021
Pay-out 5	June 2021	January – March 2021	14 April 2021

Thus, JSS is determined based on the mandatory CPF contributions. Any errors in CPF contributions may lead to the wrong JSS pay-out being made. Inland Revenue Authority of Singapore (IRAS) warned on its website the negative consequences of employers abusing the JSS. Offenders may have their JSS pay-outs denied and can be charged under Section 420 of the Penal Code, where they may face up to 10 years of imprisonment and a fine. Some examples of abuse cited by IRAS include:

- 1) Making purported mandatory CPF contributions for non-genuine employees
This is a fraudulent arrangement. Employers should not make any mandatory CPF contributions to individuals who are not their genuine employees.

- 2) Continuing purported mandatory CPF contributions for employees who have been put on no-pay leave
Employers should stop making mandatory CPF contributions for employees who have been retrenched or are on no-pay leave.

- 3) Maintaining purported mandatory CPF contribution amounts based on past wages for employees who have suffered wage cuts
CPF mandatory contributions are based on employees' wages, age and citizenship. A wage cut on the employees' part should see a corresponding decrease in the mandatory CPF contributions.

- 4) Increasing purported mandatory CPF contributions for employees without any actual wage increase
CPF mandatory contributions are based on employees' wages, age and citizenship. The prevailing CPF contribution rates can be found on the CPF website.

- 5) Inflating purported mandatory CPF contributions and deducting these excess contributions from employees' wages in cash
This is a fraudulent arrangement. Employers should only make the correct amount of mandatory CPF contributions based on the actual wages paid to their employees.

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Question 3 required:

You are auditing a company whose payroll software auto-generates CPF contributions for e-submission.

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- (a)** For each of the FIVE abuses stated above, describe the audit procedures to identify if any such abuses have occurred in an audit client. **(15 marks)**

Note: The answer must include procedures to identify non-genuine employees, employees who are retrenched or on no-pay leave, employees who suffered wages cut, increase in CPF contributions and excessive deductions in employees' wages in cash.

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- (b)** Assuming suspected abuses were detected by your audit procedures, describe how you would apply the NOCLAR [Non-Compliance with Law and Regulations] response framework in ISCA's EP 100. **(7 marks)**

Assume your firm decided to withdraw from the audit engagement and resigned as an auditor on the sole basis of the above NOCLAR. The prospective successor audit firm sent your firm a letter of professional clearance, asking your firm to provide details of any matter that the prospective firm should consider in deciding whether to take up the appointment or not.

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Question 3 required:

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(c) Describe how you would respond to the request and whether you would disclose the NOCLAR to the prospective audit firm.

(3 marks)

(Total: 25 marks)

Question 4 – (a) to (f)

Your firm is the group auditor of HL Group which comprises a parent, H Pte Ltd, and a fully owned subsidiary, L Pte Ltd. L Pte Ltd is involved in the supply of repair tools and equipment in the shipping industry. The group's financial year end is 31 October 20x1.

Due to the depressing market conditions in the shipping industry, demand for repair tools and equipment has reduced drastically. L Pte Ltd's draft financial statements reported a loss of \$27m. Goodwill has been allocated to subsidiary L Pte Ltd, which is the lowest level of cash-generating unit (CGU). You are reviewing the cash flow projection prepared by Management to estimate the value-in-use of L Pte Ltd for the purpose of goodwill impairment analysis. The Management's approach is to use the forecasted profit for the next 5 years as a proxy for the forecasted cash flow. The cash flow projection is as follows:

Year	20x2	20x3	20x4	20x5	20x6
	\$'000	\$'000	\$'000	\$'000	\$'000
EBITDA	11,375	12,832	14,375	16,009	17,738
Discount factor based on 8%	0.926	0.857	0.794	0.735	0.681
Present value of cash flows	10,533	10,997	11,414	11,767	12,080

Discount rate of 8% is the company's Weighted Average Cost of Capital (WACC).

Value-in-use is determined to be \$56,791,000.

Goodwill of \$56,000,000 has been allocated to subsidiary L Pte Ltd, which is the lowest level of the cash-generating unit. Management compared the value-in-use to the goodwill of \$56,000,000 and concluded that there is no need to recognise impairment loss on the goodwill.

You are assigned the task to review the above cash flow forecast (for the purpose of determining the value-in-use) in terms of its completeness, i.e. are there any items that should be included but are omitted. You are not required to drill into the detailed revenue and expenses to arrive at the EBITDA. This task has been assigned to another audit assistant. A more experienced audit senior is tasked to review the assumptions used in the forecast, namely forecast revenue growth, fixed costs growth and variable cost.

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Question 4 required:

- 12** **(a)** Evaluate the appropriateness of using Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) instead of net profit after tax, as a starting point of a proxy, to determine the projected cash flows. Your answer should focus on the comparison between EBITDA and net profit after tax as proxy for cash flow. **(4 marks)**
- 13** **(b)** Evaluate the appropriateness of using the Weighted Average Cost of Capital (WACC) as the discount rate to determine the net present value for the projected cash flow. You are not required to evaluate the reasonableness of 8% as this will be evaluated by the audit senior. **(4 marks)**
- 14** **(c)** Identify and describe the TWO items that should be included in the cash flow projection but are currently omitted. **(4 marks)**
- 15** **(d)** Evaluate the appropriateness of comparing the value-in-use (as calculated by Management) to the goodwill to measure the impairment loss. In your answer, you do not need to consider the fair value less cost to sell. **(3 marks)**

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Question 4 required:

(e) Assume that the audit conclusion is that the goodwill impairment loss is understated by \$10m. This is considered to have material but does not have a pervasive effect on the financial statements. Management refused to recognise the impairment loss of \$10m. Evaluate the appropriateness of each of the following proposed audit opinion:

- i.** Unmodified opinion and add an Emphasis of Matter to draw attention to the disclosure note on the goodwill.

(3 marks)

Note: The answer should include a brief discussion on when it is appropriate for an unmodified opinion and when it is appropriate to add an emphasis matter section.

- ii.** Disclaimer of opinion.

(2 marks)

Note: The answer should include a brief description on when it is appropriate for a disclaimer of opinion.

The audit engagement partner, Mr. Law Mark, has served as the audit engagement partner of the HL Group for seven years and is due to be rotated off after the completion of current year audit. The planned replacement partner, Mr. Ted Ti, has just been diagnosed with a rare blood cancer and has flown to an overseas hospital for specialist treatment. Mr. Ted Ti is on indefinite medical leave. Mr. Mark and Mr. Ti are the only audit partners in your firm with experience in auditing companies in this industry.

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Question 4 required:

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(f) Discuss whether it is appropriate for Mr. Mark to continue in the role of audit engagement partner for another year.

(5 marks)

(Total: 25 marks)

END OF PAPER