

Singapore CA Qualification (Foundation) Examination

10 June 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 (20)** 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 SAC's regulations. Please note that 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 Singapore Accountancy Commission.

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 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.

****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 0516

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

Question 1 – (a), (b) and (c)

Buildfast Pte Ltd (Buildfast) is a construction firm. Its financial year ended 31 March 2021. You are the audit manager assigned to audit the financial statements of Buildfast.

Buildfast specialises in the repair and rebuilding of private landed properties. At any one time, Buildfast may be working on five different sites.

Buildfast owns some small equipment and tools used in the construction but leases the larger equipment from its suppliers. The maximum lease period is 6 months and the company applies the elective exemption in Singapore Financial Reporting Standard (International) (SFRS(I)) 16 – *Leases* and record the leases as expenses in the income statement.

Buildfast buys its construction materials such as sand, cement, tiles, etc from various suppliers. The suppliers are instructed to deliver the supplies directly to the sites. Each site is supervised by a project manager who is assigned to the site on a full-time basis. The acceptance of the delivery of supplies and leased equipment to the sites is the responsibility of the project manager. The project manager signs on the suppliers' delivery notes and a copy is handed over to the accounting department every Friday when the project managers have their weekly meetings in the office. The staff in the accounting department assigns sequential numbers on the suppliers' delivery notes and file them in an unmatched delivery notes folder.

Suppliers' invoices are filed in an unmatched invoice folder when received. The staff in the accounting department will retrieve the supplier invoices from the unmatched invoice folder and match the invoices with the signed copy of delivery notes in the unmatched delivery notes folder and then update the following:

- The payables ledger;
- The inventory records; and
- The leased equipment register.

These invoices and suppliers' delivery notes are then filed in a matched invoice folder.

The project manager will also submit a copy of leased equipment returned note if any leased equipment are returned to the suppliers during the week. The accounting staff will update the leased equipment register using this document.

The finance manager reviews the payment vouchers prepared by the accounting staff, against the purchase orders, supplier delivery notes and supplier invoices before approving the payments. These documents are stamped paid and are filed in a paid invoice folder.

The suppliers do not send supplier statement of accounts to Buildfast.

**e-Exam
Question
Number**

Question 1 required:

2

(a) Four of the financial statement assertions applicable to transactions and events are:

- Completeness
- Occurrence
- Cutoff
- Accuracy

(i) Based on the above information in relation to the purchase of supplies in Buildfast, which TWO of these assertions are MOST susceptible to misstatement and why?

(4 marks)

(ii) For each of these TWO assertions, explain whether the risk of misstatement is overstatement or understatement and which accounts are overstated or understated.

(6 marks)

3

(b) Describe TWO audit procedures to be performed at the final audit to address the risk of misstatement in **(a)(i)** above.

(6 marks)

The company has received a legal notice, dated 28 March 2021, from the National Environment Agency to pay a penalty of \$18,000 for mosquito breeding at one of its construction sites. This penalty is unpaid as at 31 March 2021 and is not reflected in the financial statements for the year ended 31 March 2021. The management insists that the penalty will be recorded when it is paid when it is due on 30 June 2021. The management believes that there is no present obligation as at 31 March 2021 as the penalty is not yet due for payment. The audit evidence obtained confirmed the offence, the penalty notice and the amount payable.

You are considering the implications of the above-mentioned penalty on the auditor's opinion on the financial statements. The following options are being considered:

- i. Unmodified opinion
- ii. Unmodified opinion with an Emphasis of Matter (EOM) section
- iii. Qualified opinion due to misstatement
- iv. Disclaimer of opinion

The final materiality for the financial statements as a whole is \$100,000 and the performance materiality is \$60,000. There are no other issues affecting the auditor's opinion.

**e-Exam
Question
Number**

4

Question 1 required:

(c) (i) Recommend an appropriate audit opinion from the options **(i)** to **(iv)** stated above. Explain why this recommended opinion is appropriate.

(3 marks)

(ii) For EACH of the other THREE options that are not considered as appropriate opinion in this case, explain why they are not appropriate.

(6 marks)

(Total: 25 marks)

Question 2 – (a), (b), (c) and (d)

You are an audit associate in a mid-size audit firm. You are auditing Panex & Co (Panex), a local company that sells office stationery to corporate customers. Alex is an intern assigned under your mentoring and he is confused between the responsibility of the management and auditor in relation to the audit of financial statements. Alex has sought your clarification in these areas:

There is a material contingent liability that is not disclosed in the financial statements. This is in breach of Singapore Financial Reporting Standard (International) (SFRS(I)) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*. Alex believes one of the following actions should be taken by the auditor in order to comply with the requirements in SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*:

- i. The auditor to add a disclosure note in the financial statements; OR
- ii. The auditor to add a disclosure note in the audit report.

e-Exam Question Number	Question 2 required:
5	<p>(a) For each of the actions suggested by Alex, explain and conclude on the appropriateness of the action.</p> <p>(i) The auditor to add a disclosure note in the financial statements. (2 marks)</p> <p>(ii) The auditor to add a disclosure note in the audit report to help the company disclose the error. (3 marks)</p>

You have documented Panex's purchasing system and you have identified the following controls:

- 1) The management has pre-selected suppliers based on a combination of factors including prices and quality of goods. These suppliers are included in an approved suppliers list. The purchasing department has been instructed that purchase orders can only be placed with the suppliers on the approved suppliers list.
- 2) Purchase orders prepared by purchasing executives must be approved by the management:
 - a. Purchase orders up to \$5,000 to be approved by the purchasing manager;
 - b. Purchase orders more than \$5,000 and up to \$10,000 to be approved by the purchasing director; and
 - c. Purchasing orders in excess of \$10,000 to be approved by 2 directors from the Board of Directors.
- 3) The warehouse staff verify the supplier deliveries against the approved purchase orders and:
 - a. Reject deliveries that are not ordered; and
 - b. Reject quantities that are in excess of quantities ordered.
- 4) The warehouse staff inspect the quality of goods delivered by suppliers and reject damaged goods.
- 5) The accounts payable executive compares supplier invoices to approved purchase orders and the Receiving Reports from the warehouse before recording the supplier invoices in the payables ledger. [The Receiving Reports record details of goods delivered by suppliers and accepted by the warehouse staff.]

**e-Exam
Question
Number**

Question 2 required:

6

(b) For EACH of the controls listed above:

(i) Explain ONE business objective.

(5 marks)

(ii) Describe a test of control that could be performed to verify whether each control is operating effectively.

(5 marks)

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(c) When considering the misstatements at assertion level for transactions and events, the auditor considers the assertions of completeness, occurrence, cutoff and accuracy. In relation to the procedures of recording supplier invoices in the payables ledger, identify and explain TWO assertions that would be addressed by control number **(5)** above and ONE assertion that is not addressed by it.

(6 marks)

The approved audit strategy states that the test of details of purchase transactions shall be limited to 50 samples if the test of controls confirm that the internal controls are operating effectively. If the results of the test of controls indicate that the internal controls are not operating effectively, the sample size for test of details shall be increased to 100. Alex is confused with the stated strategy.

**e-Exam
Question
Number**

Question 2 required:

8

- (d)** Using the concept of audit and appropriate components of audit risk, i.e. inherent risk, control risk and detection risk, explain why the sample size of the test of details should increase when the test of controls show that controls are not operating effectively. [You do not need to provide definition of audit risk or the definition of the components of audit risk.]

(4 marks)

(Total: 25 marks)

Question 3 – (a), (b), (c), (d), (e) and (f)

Tempo & Co (Tempo) is a small restaurant. Its financial statements have never been audited since the company was formed two years ago as it met the criteria for exemption from audit. The director-cum-shareholder of Tempo, Romeo Ong, requested your audit firm to accept the appointment as its company's auditor. This is because a condition of the bank loan that Tempo is trying to secure requires the company's financial statements to be audited annually during the tenure of the loan, which is six years.

Tempo hires a part-time bookkeeper who is not a qualified accountant to record its transactions. It then provides a trial balance to an accounting firm to compile the financial statements for tax filing. If your firm is appointed as their auditor, Romeo wants your firm to take over the bookkeeping function and also the compilation of the financial statements.

To increase the confidence of the bank on the company's financial statements, Romeo thinks that it is important for the audit report to include a statement that your audit firm is responsible for the preparation of its financial statements.

Tempo currently has an income tax disagreement with the tax authority. Romeo requests for your firm to represent Tempo to seek an amicable resolution with the tax authority. As an incentive, Romeo offers to increase the audit fee by 20% of the tax savings from the resolution of the tax dispute.

As a background check, your firm has found out that Romeo is an immediate family member of the former prime minister of a neighbouring country who was arrested for corruption about one year ago.

**e-Exam
Question
Number**

Question 3 required:

- 9** **(a)** In relation to the proposed audit fee arrangement, discuss the ethical threat(s) involved, recommend an appropriate response to it and explain to Romeo how audit fee should be determined. **(4 marks)**
- 10** **(b)** In relation to Romeo's suggestion that the audit firm also provides bookkeeping and compilation services, discuss the ethical issue involved and any safeguards the audit firm could implement. **(4 marks)**
- 11** **(c)** In relation to Romeo's request that the firm represents Tempo in negotiating with the tax authority, discuss the ethical issues involved. **(3 marks)**
- 12** **(d)** Explain how the information obtained from the background check might affect your firm's decision on whether to accept the audit appointment. **(4 marks)**
- 13** **(e)** Discuss how the fact that the company's financial statements were never audited before would affect your firm's decision in accepting the audit appointment. **(5 marks)**

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- (f) Evaluate Romeo's request that the audit report includes a statement that the auditor is responsible for the preparation of the financial statements.

(5 marks)

(25 marks)

Question 4 – (a), (b), (c), (d) and (e)

You are an audit senior assigned to audit the financial statements of a building supplies company, Sandy Pte Ltd (Sandy). According to the audit plan, Lobo, an intern, is assigned to perform test of details of sales transactions.

Lobo has read the audit programme and is confused with the audit objectives of the following test of details in terms of the assertions to be verified and whether overstatement or understatement can be detected by them:

1. Select samples of customer orders, trace the details to the delivery notes, the sales invoices and the receivables ledger.
2. Select samples of sales invoices in the sales ledger and agree details to the sales invoices delivery notes and customer orders.
3. Select samples of sales invoices and agree quantity in the sales invoices to the quantity in the delivery notes.
4. Select samples of sales invoices and agree unit prices in the sales invoices to the unit prices in approved price list and customer orders.
5. Select samples of sales invoices and recalculate the invoice value.
6. Select samples of sales invoices and recalculate the Goods and Services Tax (GST).

Lobo is also concerned that there is no test of details to confirm the cutoff assertion in the audit programme. He heard that there are two types of cutoff procedures to be performed.

**e-Exam
Question
Number**

Question 4 required:

15

- (a) For each of the SIX tests of details listed above, state the assertion to be tested and the misstatements that can be detected, i.e. overstatement of sales or understatement of sales or both.

Present your answer in the following format:

<p><u>Test of Details 1</u> Assertion tested _____ e.g. cutoff Misstatement _____ e.g. overstatement of sale</p>
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(6 marks)

16

- (b) Describe two tests of details that can be performed to confirm that the cutoff of sales transactions is correct.

(4 marks)

Lobo has carried out the tests of details on sales transactions as instructed and has documented that two out of the sample of 40 sales invoices were for the sale of the company's delivery vans. He has successfully traced all these 40 sales invoices to the receivables ledger and the posting to the sales account in the general ledger. Lobo is not sure whether the two sales invoices resulted in any misstatements.

**e-Exam
Question
Number**

17

Question 4 required:

- (c)** Explain the misstatements that could be caused by the two sales invoices relating to the sale of delivery vans. Your explanation should include the assertion affected, and the accounts that are misstated.

(5 marks)

You discussed the observation in (c) above with the accountant of Sandy and she said that because sales invoices are raised for the sales of delivery vans, the sales invoicing system posted all sales invoices to the sales account in the general ledger.

**e-Exam
Question
Number**

Question 4 required:

18

- (d) Given the above explanation by the accountant, describe the further audit procedures to be performed, particularly on the sale of delivery vans in the year.

(5 marks)

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- (e) Recommend improvements to the process of recording sales of delivery vans to avoid the same misstatements from happening again. Your recommendations should include one manual process to be implemented and one change to the invoicing system. The two recommendations can work in a mutually exclusive manner, i.e. the company can implement either of the recommendations to address the issue.

(5 marks)

(Total: 25 marks)

END OF PAPER

Appendix A – Common verbs used by the Examiners

Verb	Description
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.
Discuss	Discuss requires you to provide the 'for' and 'against' arguments, you cannot have a discussion without opposing views otherwise it would be just a conversation. If discuss is placed near the front of the instruction, then it requires you to provide an answer that is similar to explain , but addresses both the for and against arguments.
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.
Recommend	Make a statement about the most appropriate course of action. If there is more than one possible course of action, state which action you would choose and why (justify your choice). Your professional judgment and your ability to interpret the wider situation are critical to scoring well in these types of questions. Don't forget to think about the future and the past, not just the present when making a recommendation .
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.