

# Singapore CA Qualification (Foundation) Examination

14 December 2018

## 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 **FOURTEEN (14)** 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. This means that you are allowed to only bring the following materials into the examination hall:
  - One A4-sized double-sided cheat sheet.
4. During the examination, you are allowed to use your laptop and any calculators that comply with the SAC's regulations. Please note that mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
5. This examination paper is 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 2018 and the Singapore Standards on Auditing (SSA) issued by the Institute of Singapore Chartered Accountants (ISCA) as at 1 January 2018.

### Question 1 – (a), (b), and (c)

Halle is the Chief Executive Officer (CEO) of a start-up company, EP Pte Ltd (EP). The initial capital was funded entirely from Halle's savings and she is the only shareholder. The company qualifies for audit exemption under the *Companies Act* and thus the first financial statements for the year ended 30 September 20x7 were not audited. Halle is negotiating with some angel investors who might invest in EP as ordinary equity shareholders. These angel investors require the financial statements for the year ended 30 September 20x8 to be examined by an audit firm. The examination by the audit firm can either be an audit of the financial statements or a review of the financial statements but Halle does not know the difference.

#### Exemplify Question Number

#### Question 1 required:

1

**(a)** Compare an audit of the financial statements with a review of the financial statements, addressing the:

**(i)** Level of assurance provided; **(2 marks)**

**(ii)** Extent of the procedures to be performed; **(2 marks)**

**(iii)** Type of conclusion; **(2 marks)**

**(iv)** Difference in the estimated time required to complete the service; and **(1 mark)**

**(v)** Difference in the amount of fee charged for the service. **(1 mark)**

Halle has never seen an audit report before. Her only accounting staff member, who is still an accounting student, showed her a sample of an audit report from the internet found through a Google search:

*Title:* **Auditor's Report**

*Addressed to:* **The Board of Directors**

*Opinion:* We have audited the financial statements of XYZ-1 Company Pte Ltd. In our opinion, the financial statements are accurate.

*Basis for Opinion:* We conducted our audit according to our firm's audit methodology. The evidence obtained by us provides 100% assurance that the financial statements are accurate.

*Management's and Directors' responsibility:* Management and the Directors are responsible for running the company.

*Dated:* Financial year-end date

*Signature:* Signed by the Chairman of the Board

**Exemplify  
Question  
Number**

**2**

**(b)** Identify and explain TEN deficiencies in the above audit report.  
**(10 marks)**

Halle approaches her best friend, Indiana, who is the sole proprietor of an audit firm, with a view to appoint her as the auditor. Halle believes the audit will be easier because Indiana understands her business and management style well through many years of friendship.

**Exemplify  
Question  
Number**

**3**

**(c)** In accordance with Ethics Pronouncement (EP) 100 the *ISCA Code of Professional Conduct and Ethics*:

**(i)** Explain why it is not appropriate for Indiana to accept the appointment; and **(4 marks)**

**(ii)** Advise Indiana of THREE key points she should include when responding to her friend's request. **(3 marks)**

**(Total: 25 marks)**

## Question 2 – (a), (b), and (c)

As an Audit Senior assigned to the audit of the financial statements of Stardust Pte Ltd (Stardust) for the year ending 31 December 20x8, you are reviewing the draft accounts receivable circularisation letter prepared by an Audit Intern:

*[To be printed on the audit firm's letterhead]*

To:

The Accounts Payable Assistant

[Insert name of the accounts payable entity and its mailing address]

Dear Sir/Madam,

**Re: Request to confirm balance at year-end**

We are auditing the financial statements of your supplier, Stardust Pte Ltd, thereafter referred to as Stardust. In conjunction with the audit, we request you confirm the balance owed by you to Stardust. Please send your reply direct to the accounts receivable section of Stardust. We thank you for your kind co-operation.

Yours truly,

**Audit Intern**

**Quick-Fix Audit Firm**

**Exemplify  
Question  
Number**

**Question 2 required:**

**4**

- (a)** Identify and explain FIVE deficiencies in the draft circularisation letter. **(10 marks)**

The Audit Intern has a question about accounts receivable circularisation:

*“What assertions are proven if the replies we receive from the customers of Stardust Pte Ltd confirm the balances in the accounts receivable ledger?”*

**5**

- (b)** Explain to the Audit Intern whether the confirmation replies received that agree with the accounts receivable balances stated in the ledger of Stardust Pte Ltd provide sufficient appropriate audit evidence on the following assertions:

**(i)** Completeness of accounts receivable; **(2 marks)**

**(ii)** Existence of accounts receivable; **(2 marks)**

**(iii)** Rights of accounts receivable; **(2 marks)**

**(iv)** Accuracy, valuation, and allocation of accounts receivable;  
and **(2 marks)**

**(v)** Cut-off of sales transactions. **(2 marks)**

You received the year-end bank reconciliation statement prepared by the accounting department of Stardust as follows:

<b>Bank Reconciliation</b> 31 December 20x8	
Balance as per bank statement	\$1,234,567
<i>Add:</i> uncleared cheque deposit Cilli Bank cheque number 2312	<u>\$231,323</u>
Balance as per cash book	<u>\$1,465,890</u>

**Exemplify  
Question  
Number**

**6**

**(c)** Describe the audit procedures you want the Audit Intern to perform on the above bank reconciliation to:

**(i)** Verify the balance as per the bank statement; **(1 mark)**

**(ii)** Verify the uncleared cheque deposit; **(2 marks)**

**(iii)** Verify the balance as per the cash book; and **(1 mark)**

**(iv)** Confirm the arithmetic accuracy of the bank reconciliation.

**(1 mark)**

**(Total: 25 marks)**

### Question 3 – (a), (b), and (c)

HiFinz Pte Ltd (HiFinz) commissioned a valuation of its only office building on 31 October 20x8. The audit working paper documents the following in relation to the valuation of the office building:

*Audit procedures performed during the interim audit:*

- i. Inspected the valuer's certification and qualification documents;*
- ii. Interviewed and discussed with the valuer their past valuations of similar properties;*
- iii. Received confirmation in writing from both the valuer and the management of HiFinz that the valuer is not related to any shareholders, directors, or officers of HiFinz and has no past transactions with HiFinz; and*
- iv. Reviewed the assumptions and data used in the valuation report.*

The conclusion documented the results from the above procedures were satisfactory. No other audit procedures have been performed on the valuation.

The Audit Senior is drafting further audit procedures on the fair value of the property in the valuation report, which is \$28m, \$8m higher than the book value as at 31 October 20x8.

The financial year-end of HiFinz was 30 November 20x8.



**Exemplify  
Question  
Number**

**Question 3 required:**

**7**

**(a)** The Audit Senior has asked you to:

**(i)** Explain the purpose of the audit procedures i, ii, and iii detailed in the case above that were performed during the interim audit. **(3 marks)**

**(ii)** Give ONE example for the 'assumptions' and ONE example for the 'data' used by the valuer in the valuation report commissioned by HiFinz Pte Ltd. **(2 marks)**

**8**

**(b)** In relation to the valuation performed on the office building, describe FOUR audit procedures to be performed to ensure that the fixed asset register and the depreciation charge have been correctly updated. For each procedure, explain the purpose of performing the procedure. **(8 marks)**

**Exemplify  
Question  
Number**

On 30 October 20x8, HiFinz completed the following transactions:

- An acquisition of a new warehouse, recorded as a fixed asset at a cost of \$30m; and
- The disposal of an old warehouse for \$8m, recorded as a loss on disposal of \$1m.

**9**

**(c)** Describe the audit procedures to be performed and the associated assertions in relation to the following objectives:

**(i)** The cost of the new warehouse acquisition; **(2 marks)**

**(ii)** The new warehouse exists; **(2 marks)**

**(iii)** The company owns the new warehouse; **(2 marks)**

**(iv)** The new warehouse is correctly recorded as a fixed asset and not as an investment property; **(2 marks)**

**(v)** The sale proceeds from selling the old warehouse are real; and **(2 marks)**

**(vi)** The loss on disposal of the old warehouse is recorded correctly. **(2 marks)**

**(Total: 25 marks)**

#### **Question 4 – (a), (b), (c), and (d)**

Yuki Pte Ltd (Yuki) is a chain of jewellery boutiques. All the boutiques sell the same diamond jewellery products, operate the same procedures, and are open every day throughout the year.

##### *Boutique daily inventory withdrawal and return (standard procedure)*

Every morning the senior sales staff member reports to the boutique manager and draws the inventory from the safe in the boutique. Under the supervision of the boutique manager, the senior sales staff member signs a stock record log confirming the inventory items signed out. They then put these inventory items on the display shelf. At the end of each day, the senior staff member returns the inventory items to the safe and the boutique manager signs the stock record log to confirm the inventory items have been returned and locked in the safe. The difference between the quantity counted in the morning and the quantity counted at the end of the day is reconciled to the sales records maintained in the point of sales (POS) system. If there is a shortage, an investigation is carried out.

##### *Year-end inventory count (standard procedure)*

At year-end, all boutiques close early to perform the year-end inventory count. The quantity counted is recorded in stock count sheets and then verified against the stock record log. The quantities in the stock record log form the basis for the inventory amounts in the Statement of Financial Position. Staff members from Yuki's accounting, human resource, and sales administration departments perform the year-end inventory count. A member of the audit team is present during the year-end inventory count.

**Exemplify  
Question  
Number**

**Question 4 required:**

**10**

- (a)** Explain why the daily inventory withdrawal and return procedures can be considered as internal control procedures. Your answer should include TWO business implications and ONE impact on the inventory figures in the financial statements.
- (7 marks)**

**11**

- (b)** For each procedure below, describe TWO tests of controls that can be performed by the auditor to confirm the operating effectiveness of:
- (i)** The inventory withdrawal and return procedures; and
- (4 marks)**
- (ii)** The reconciliation of inventory quantities in the stock records to the sales records maintained in the point of sales (POS) system.
- (4 marks)**

**12**

- (c)** Describe ONE substantive procedure that the auditor should perform in relation to the year-end inventory count attendance to confirm:
- (i)** The existence of inventories; and
- (2 marks)**
- (ii)** The completeness of the stock records.
- (2 marks)**

**Exemplify  
Question  
Number**

Although each diamond comes with a Certificate of Authenticity issued by a reputable diamond valuation organisation, one difficulty faced by the auditor when attending the year-end inventory count of Yuki Pte Ltd is verifying that the inventory items are authentic diamonds and the value of each diamond.

**13**

- (d)** Suggest THREE methods to obtain appropriate audit evidence to confirm the inventory items are real diamonds. **(6 marks)**

**(Total: 25 marks)**

**END OF PAPER**

## Appendix A - Common verbs used by the Examiners

Verb	Description
<b>Advise / Give advice</b>	This type of question requires you to give specific guidance to an individual or a group, so your answer <u>must</u> provide specific information or make a <b>recommendation</b> tailored to the individual or group and <b>justify</b> your position.
<b>Compare and Contrast</b>	<b>Compare</b> requires you to show how things are similar and/or different while <b>contrast</b> requires you to show how things are different or opposite. Even if you are asked just to <b>compare</b> , you must indicate both the similarities and differences.
<b>Describe</b>	<b>Describe</b> requires you to provide the characteristics and features of an item or situation without going into step-by-step <b>detail</b> of how to perform that procedure.
<b>Explain</b>	<b>Explain</b> 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.
<b>Give Examples / Illustrate</b>	<b>Illustrate</b> requires you to provide <b>an example</b> , either from the facts given, a real-life example or a made-up example to <b>illustrate</b> the point you are trying to make.
<b>Identify</b>	<b>Identify</b> is similar to list but requires you to also provide an <b>explanation</b> as to why the item/s that you have <b>identified</b> is/are relevant to the facts given in the question.
<b>In accordance with</b>	This instruction requires you to relate your answer back to a specific document. Failure to make specific mention of the document in your answer will result in a loss of marks.
<b>Justify</b>	Whenever you see the word <b>justify</b> you <u>must</u> provide reasons for your answer, in other words, provide support for your argument or conclusion. If you fail to <b>justify</b> your answer, you will lose valuable marks. <b>Justify</b> is similar to <b>defend</b> .
<b>Suggest</b>	Put forward (for instance, a point of view, idea, argument, alternatives, etc.) for consideration or action.