

Singapore CA Qualification (Foundation) Examination**6 December 2019****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 watches, 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 2019 and the Singapore Standards on Auditing (SSA) issued by the Institute of Singapore Chartered Accountants (ISCA) as at 1 January 2019.

Question 1 – (a), (b), (c), (d) and (e)

ABC Pte Ltd (ABC) is a newly incorporated company which deals in military supplies. ABC has appointed an audit firm, ZZZ LLP (ZZZ), as the external auditor to audit the financial statements for the year ending 31 December 2019.

In view of the highly confidential contracts that are signed with importers representing the defence forces, the Finance Director has requested ZZZ not to audit the revenue and inventories of the company. The audit partner who met with the Finance Director explained that by not auditing the revenue and inventories, it is likely to lead to a disclaimer of opinion. The Finance Director is prepared to receive an audit report that contains disclaimer of opinion as a consequence of exclusion of revenue and inventories from the scope of audit. The Finance Director suggested to the audit partner that the company is willing to pay a higher audit fee if ZZZ issues an unmodified audit opinion.

**Exemplify
Question
Number**

Question 1 required:

- | | |
|----------|---|
| 1 | <p>(a) When considering whether to accept the audit appointment, ZZZ must consider whether the preconditions for an audit are present. Describe ONE of the preconditions.</p> <p style="text-align: right;">(2 marks)</p> |
| 2 | <p>(b) Besides the preconditions, briefly describe SIX matters that ZZZ should consider when deciding whether to accept the audit engagement.</p> <p style="text-align: right;">(12 marks)</p> |
| 3 | <p>(c) Explain why the exclusion of the audit of revenue and inventories is likely to lead to a disclaimer of opinion.</p> <p style="text-align: right;">(4 marks)</p> |
| 4 | <p>(d) Explain why the audit engagement shall not be accepted by ZZZ.</p> <p style="text-align: right;">(3 marks)</p> |
| 5 | <p>(e) Explain the ethical threat arising from the audit fee arrangement suggested by the Finance Director, and suggest an appropriate response for ZZZ.</p> <p style="text-align: right;">(4 marks)</p> <p style="text-align: right;">(Total: 25 marks)</p> |

Question 2 – (a), (b), (c), (d) and (e)

The audit of DEF Pte Ltd's (DEF) financial statements for the year ended 30 September 2019 is near completion. In the draft financial statements, the profit before tax and net assets are \$20 million and \$30 million respectively. The schedule of uncorrected misstatements in the audit working papers consists of the following details:

	Misstatements	Amount (\$)	Impact on Profit Before Tax (\$)	Impact on Net Assets (\$)
1	Revenue	220,000	220,000	220,000
2	Trade receivable	50,000	50,000	50,000
		270,000	270,000	270,000

1. Revenue

Ten sales invoices of \$220,000 were recorded as revenue on 30 September 2019. There was a workers' strike on 30 September 2019 and the deliveries were delayed. The goods delivery notes indicated that the goods were delivered on 3 October 2019.

2. Trade receivable

DEF received a notice from customer YYY & Co (YYY) that it had started voluntary liquidation on 28 October 2019. The receivable from YYY at 30 September 2019 was \$50,000. The entire amount remained outstanding after 30 September and no allowance for impairment loss was recognised in relation to this receivable.

The revised materiality for the financial statements as a whole was set at \$200,000.

**Exemplify
Question
Number**

Question 2 required:

6

- (a)** According to SSA 450 *Evaluation of Misstatements Identified during the Audit*, when the auditor is evaluating misstatements, it may be useful to distinguish between factual misstatements, judgmental misstatements and projected misstatements.

Briefly explain:

(i) Factual misstatements. **(2 marks)**

(ii) Judgmental misstatements. **(2 marks)**

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- (b)** For misstatement in revenue:

(i) Describe ONE audit procedure that could have detected the above misstatement in revenue.

(2 marks)

(ii) Explain the assertion affected by the misstatement.

(2 marks)

(iii) State whether the misstatement is a factual misstatement, judgmental misstatement or projected misstatement.

(0.5 mark)

**Exemplify
Question
Number**

8

- (c)** In relation to the receivable from YYY, DEF management disagreed that the allowance for impairment loss should be recognised at year end because the notice of YYY's voluntary liquidation was received after year end.

For misstatement in trade receivable:

- (i)** Explain why the impairment loss of the receivable from YYY should be recognised at year end.

(2 marks)

- (ii)** Explain the assertion affected by the misstatement.

(2 marks)

- (iii)** State whether the misstatement is a factual misstatement, judgmental misstatement or projected misstatement.

(0.5 mark)

**Exemplify
Question
Number**

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- (d)** The auditor evaluates misstatements to determine whether the misstatements are material on an individual or aggregate basis.
- (i)** Explain how the “materiality for the financial statements as a whole” is applied when evaluating the uncorrected misstatements. **(2 marks)**
- (ii)** Evaluate whether the revenue misstatement is individually material. **(2 marks)**
- (iii)** Evaluate whether the trade receivable misstatement is individually material. **(2 marks)**
- (iv)** Evaluate whether these misstatements are material on an aggregate basis. **(2 marks)**

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- (e)** Identify and explain an appropriate audit opinion:
- (i)** If management has corrected the revenue misstatement but refused to correct the misstatement in trade receivable. **(2 marks)**
- (ii)** If management has corrected the misstatement in trade receivable but refused to correct the misstatement in the revenue misstatement. **(2 marks)**
- (Total: 25 marks)**

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

AT Partnership (ATP) is performing the audit of a listed company, Fury Pony Ltd (FPL) and has encountered some issues. In ATP's opinion, the new product development expenditure could not be capitalised as intangible assets and FPL's management had disagreed on this. Management mentioned in the meeting with the audit engagement partner that they will appoint another audit firm to continue with the audit if the issues could not be resolved to their satisfaction. FPL refused to pay the audit fee for the interim audit that was completed two months ago and the fee is overdue.

Subsequently, FPL informed the audit engagement partner that they have talked to another audit firm, Rest Assured LLP (RAL) to take over the audit with immediate effect. RAL has requested for FPL's permission to write to ATP as part of the pre-engagement acceptance clearance process. FPL's management informed the audit engagement partner that if ATP discloses the issues that were identified during the interim audit to RAL, the interim audit fee will not be paid. FPL reasoned that they did not want ATP's opinion to affect the judgement of the prospective auditor, RAL. Two days later, ATP received the letter from RAL requesting for information of FPL's audit.

**Exemplify
Question
Number**

Question 3 required:

- 11** **(a)** Explain the objective of RAL in writing to ATP prior to RAL's acceptance of the audit engagement.
(2 marks)
- 12** **(b)** Describe the matters ATP should communicate to RAL assuming that:
 (i) FPL did not place any restriction on ATP's response to RAL.
(4 marks)

 (ii) FPL restricted ATP's response as described in the case above.
(4 marks)
- 13** **(c)** In relation to FPL's threat to replace ATP with another audit firm:
 (i) Explain the ethical threats that were faced by ATP.
(3 marks)

 (ii) Describe the next steps ATP should take to address the issue.
(3 marks)
- 14** **(d)** Assuming that RAL decides to take over the audit, suggest an appropriate way for RAL to highlight to users of the audit report that the prior year's financial statements were audited by another audit firm and describe the matters that should be communicated.
(3 marks)

**Exemplify
Question
Number**

15

- (e)** Suggest THREE possible reasons why ATP has concluded that the new product development expenditure should not be capitalised as intangible assets. Your answer should consider the recognition criteria in SFRS(l) 1-38 *Intangible Assets*.

(6 marks)

(Total: 25 marks)

Question 4 – (a), (b), (c) and (d)

You are an audit associate of DEKP LLP, an international audit firm and have been assigned to audit the trade payable and accrual section of IMK Pte Ltd (IMK) for the year ended 31 August 2019. During the audit, you reviewed the following system note written by yourself after a discussion with the accounts payable supervisor:

“When the supplier invoices are received, they are placed in an open box in the Accounts Payable (AP) section of the accounting department. When suppliers call to chase for payment, an AP clerk will search for the invoices. If a supplier invoice cannot be located, the AP clerk will request the supplier to send a duplicate copy of the invoice. If the supplier invoices are located, the AP clerk will perform an arithmetic check on the invoices. Although the associated purchase orders and goods received notes are accessible in the computerised system, the AP clerk does not refer to them.

For those invoices that are verified to be accurate, the AP clerk will then prepare payment vouchers (PV) for the accountant’s approval for payment. When the PV are approved, the accountant will prepare cheques for two directors who are cheque signatories to sign. The PV and supplier invoices are attached to the cheques for the directors to review. After the cheques are signed, the AP clerk will update the creditor ledger with the details of the supplier invoices. When the monthly bank statements show that the cheques have been cleared, the AP clerk will update the creditor ledger with the payment details. The cash book is updated simultaneously.”

**Exemplify
Question
Number**

Question 4 required:

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- (a)** Identify and explain THREE assertions (relating to purchases and trade payables) that are most likely to be misstated due to how the supplier invoices are being processed. Your answer should include whether purchases and trade payables are likely to be overstated or understated.

(9 marks)

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- (b)** Suggest THREE improvements that IMK should implement in the processing of supplier invoices when they are received.

(6 marks)

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- (c)** Assuming that there are no changes to the above processes of recording the supplier invoices, describe FOUR test of details that could help to ensure completeness or correct cut-off of trade payables at year end.

(8 marks)

**Exemplify
Question
Number**

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- (d)** When the trade payable balances confirmed by the trade creditors in their confirmation replies are different from the balances in the trade creditor ledger, one of the usual reconciling items is “cash-in-transit”, i.e. cash payment recorded in the creditor ledger before year end but recorded by the suppliers after year end.

Referring to how the supplier invoices are recorded as described in the above system note, explain whether the “cash-in-transit” item is expected to be a reconciling item in the trade payable reconciliation for IMK.

(2 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.
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.
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.