

Singapore CA Qualification Examination**12 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 **THIRTEEN (13)** 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 SAC's regulations. Please note that mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
4. This examination paper is the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

5. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
6. 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.

Question 1 – (a) and (b)

Tipo Pte Ltd (Tipo) is a ship repair and maintenance service provider. Tipo charges its customers in Singapore dollar (S\$) and pays for supplies and equipment in United States dollar (US\$).

The company maintains a US\$ current account with its bank and keeps a small balance in the account. Tipo uses an average rate to convert purchase transactions for recording in the ledger. The average rate is revised once every six months. The following chart shows the US\$1: S\$ exchange rates for the past 1 year.



Due to the trade war between the United States and China, there is a lower demand in shipping. Some of the ships belonging to Tipo's customers were docked at the ports when they usually should be out in the sea transporting goods. Some of Tipo's customers also experienced delays in their shipping schedule because some of their cargoes were stuck at the customs due to longer custom clearance. The knock-on effect is that these customers have shorter time for ship repair and maintenance so as to catch up with lost time. As a result, some customers cancelled their pre-bookings for ship maintenance with Tipo. Some customers asked for longer credit term.

In response to these challenges, Tipo's management implemented the following measures:

- Reduced the quantity of inventory order and frequency of ordering. This is necessary because some of the chemicals used in ship repair have an expiration date. Expired chemicals are of no use to the company.
- Postponed planned assets replacement for 20 machines worth S\$15 million. These machines have less than two years left according to the original estimated useful life.
- Cancelled a contract to buy a small warehouse. The purchase option was signed with a down payment of S\$1 million that has already been paid. The down payment was recorded as prepayment in the statement of financial position.
- Ship repair engineers, technicians and workers were instructed to go on one day of unpaid leave every work week. Most of the technicians and workers are members of the Ship Builders Workers Union (SBWU). SBWU has sent a legal letter to the management demanding the withdrawal of the instruction as it breaches the Collective Agreement signed earlier.

**Exemplify
Question
Number**

Question 1 required:

1

- (a)** From the events or transactions provided in the case, identify and explain EIGHT risks of material misstatement in terms of the impact on the financial statements. Be specific in your answers by stating the relevant account balance or transactions affected. **(16 marks)**

Furthermore, the management started offering free standard warranty and extended warranty (chargeable) to customers from the beginning of the year. The free standard warranty provides the customer with the assurance that the product complies with agreed-upon specifications. The customer does not have an option to buy this free warranty separately or exclude it for a lower price.

2

- (b)** In relation to the extended warranty, provide a list of questions and additional information needed to evaluate the appropriateness of the application of the accounting treatment and explain the risks of misstatement arising from the accounting of the extended warranty. **(9 marks)**

(Total: 25 marks)

Question 2 – (a), (b), (c), and (d)

5G Trading Pte Ltd (5G) is a stationery trading company that sells office stationery to retailers. 5G has a financial year end of 31 December. You are assigned to audit the trade payable. You have been asked to be cognisant of the opportunity to use computer assisted audit techniques (CAATs) to make the audit more efficient or effective. You are required specifically to draw up a list of requests for your colleagues, who are computer audit specialists, to use audit software technology to analyse the trade payable data for audit purposes.

The IT staff of the client has extracted their trade payable data at year end into an excel spreadsheet file for you. There are 2,008 records in the spreadsheet. The following are the first ten records in the excel spreadsheet:

S/N	Date	Invoice Number	Supplier	Amount (\$)
1	3 April 2018	Z198	ZZZ Trading	17,942
2	18 November 2018	9012A	TNT Pte Ltd	8,953
3	28 November 2018	AA33331	Aaron SL	9,334
4	13 December 2018	989	Xtron	22,124
5	15 December 2018	9333A	TNT Pte Ltd	1,429
6	15 December 2018	34543	PWD & Co	18,766
7	17 December 2018	1201	Swisscot	6,901
8	17 December 2018	AA33989	Aaron SL	7,455
9	18 December 2018	302330	Wetwiser	14,577
10	18 December 2018	822	Tigergress W	32,795

You are given the following information on the approved audit plan memorandum and the firm's methodology on selecting individual balances for circularisation:

- All balances equal to or higher than the performance materiality will be selected.
- All balances lower than performance materiality will be subject to sampling using monetary unit sampling (MUS).

**Exemplify
Question
Number**

Question 2 required:

3 **(a)** Describe THREE audit procedures to be performed to confirm the reliability of the data in the spreadsheet, i.e. the data in the spreadsheet is the same as the trade payable balances in the accounting system from which the data are extracted from.

(6 marks)

4 **(b)** Provide SIX suggestions to the computer audit specialists to assist you in analysing or using the data provided. For each of your suggestions, explain why you would need that information.

(12 marks)

5 **(c)** Explain ONE aspect of the effectiveness of audit that is enhanced in this case by using CAATs.

(3 marks)

One of your concerns is that not all supplier invoices may be recorded in the trade payable ledger.

6 **(d)** Describe TWO audit procedures to be performed to identify unrecorded trade payables at year end.

(4 marks)

(Total: 25 marks)

Question 3 – (a), (b) and (c)

Cool8 Pte Ltd (Cool8) sells its products to customers in Singapore through an online website. The company has been in operations for three years. This is the first year where the company has engaged an external auditor to perform statutory audit on the financial statements as the company no longer qualifies for an audit exemption.

The company allows two options to fulfil customer orders after customers have made their payments online:

- Self-collection by customers at Cool8's warehouse in Tai Seng during published operating hours. No prior appointment is needed. As soon as the customers' orders are paid, Cool8 packs the goods, marks the customers' details on the packaging and sets them aside at the collection counter. Revenue generated from this option is recorded as "self-collection revenue" in the general ledger.
- Free local delivery to customers within 3 to 5 days of order confirmation. Revenue generated from this option is recorded as "delivery revenue" in the general ledger.

Cool8 generates sales invoices after online payment has been made by customers and the sales invoices are recorded as revenue based on invoice date.

Based on the trial balance provided by Cool8, it appears that the company's revenues for last year and this year have exceeded S\$1 million, which is the criteria for compulsory registration as Goods and Services Tax (GST) trader. Therefore, Cool8 has to be registered as a GST trader. The general manager claimed that he was not aware of such a requirement. The company has one registered director who is the founder of Cool8. However, he visits Cool8 occasionally as he is a retiree who enjoys travelling and thus he is often not in Singapore.

**Exemplify
Question
Number**

Question 3 required:

- 7**
- (a)** Suggest an appropriate way for the auditor to inform users of financial statements and audit report that this is the first time the financial statements have been audited:
- (i)** If the auditor is able to obtain sufficient and appropriate evidence on opening balances for this initial engagement and the audit opinion is not modified in respect of the opening balances. **(3 marks)**
- 8**
- (ii)** If the auditor is unable to obtain sufficient and appropriate evidence on opening balances for this initial engagement. **(3 marks)**
- 9**
- (b)** Using available information pertaining to the fulfilment of customer orders, explain whether Cool8 Pte Ltd is recording the two separate revenues (self-collection revenue and delivery revenue) correctly in terms of timing of revenue recognition. **(8 marks)**
- 10**
- (c) (i)** Describe what the audit associate should do after the discussion with the general manager on the requirement for Cool8 Pte Ltd to be registered as a GST trader. **(3 marks)**

**Exemplify
Question
Number**

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- (c) (ii)** Discuss the auditor's responsibilities when there is non-compliance with the law and regulation by Cool8 Pte Ltd. The discussion should include implications on the financial statements, auditor's report and auditor's reporting responsibilities besides the auditor's report.

(8 marks)

(Total: 25 marks)

Question 4 – (a), (b) and (c)

DoRaeMe Private Limited (DRM) operates a jewellery shop in an HDB heart land. Your firm has been auditing DRM for four years. This year, DRM is planning to expand by opening a new shop in a new shopping mall. DRM requires loan financing from the bank for this expansion. The bank, UMB, has asked DRM to provide a three years' business plan for the new shop. The business plan should include a sales and cash flow forecast for three years. The proposed loan period is three years with monthly payment of interest and annual partial repayment of principal. The loan amount can only be used to pay for capital expenditure, operating expenses and working capital relating to the new retail outlet.

The directors of DRM have requested your firm to assist them in preparing the business plan as they have no experience in this aspect at all. Directors need help from your firm in determining the items to be included in the cash flow forecast and determining the sales growth rate.

**Exemplify
Question
Number**

Question 4 required:

12

- (a)** Discuss the ethical threats to auditor's independence in relation to the above request and how your firm should deal with the request. **(5 marks)**

DoRaeMe Private Limited has just recruited a new accountant who was a management consultant and thus has relevant experience in preparing business plans. The directors informed your firm that the request for preparing a business plan is now not required. Instead, the directors now request the audit firm to provide an assurance report on the business plan for submission to the bank. The directors have provided a draft assurance report prepared by themselves to show what they think an assurance report on a business plan would look like:

To: Shareholders

We have audited the attached business plan.

In our opinion, the attached business plan is true and fair based on the assumptions made by the directors.

We have audited the business plan according to Singapore Standards on Auditing. We have obtained sufficient appropriate evidence to support our opinion.

13

- (b)** Recommend and explain SIX corrections to be made to the directors' draft assurance report on prospective financial information. **(12 marks)**

**Exemplify
Question
Number**

The directors have also provided a first draft of the cash flow forecast (without figures) as follows:

Draft Cash Flow Forecast

	\$'000
Sales – Cash	XXX
Sales – Credit card	XXX
Cost of sales	(XXX)
Gross profit	XXX
Depreciation	
Fixtures and fittings	(XXX)
IT equipment	(XXX)
Payroll expense	(XXX)
Rental expense	(XXX)
Net cash inflow	XXX

14

(c) Recommend FOUR suggestions to the directors on how the above draft cash flow forecast should be amended to reflect a proper cash flow forecast.

(8 marks)

(Total: 25 marks)

END OF PAPER