INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is 3 hours 15 minutes, including 15 minutes of reading time. Only annotations are allowed on the question paper during the reading time.

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. Only calculators that comply with the SAC’s regulations may be used during the examination. However, computers, mobile phones, tablets, and other electronic devices MUST NOT be used during the examination.

4. The number of marks allocated is shown at the end of each question.

5. Write legibly in black/blue ink only.

6. All answers must be written in the answer booklets provided.

7. Begin your answer to each question in a separate answer booklet.

8. This question paper MUST NOT be removed from the examination room.

9. This examination paper is the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

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

11. Unless specified otherwise, assume that all the reporting entities in all the questions adopt, for all the relevant years, the Singapore Financial Reporting Standards (SFRS) that were issued by the Accounting Standards Council as at 1 January 2017 and the Singapore Standards on Auditing issued by ISCA as at 1 January 2017.

12. 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.
Question 1 – (a) through (f)

Pay Slow Pte Ltd (PS) is a new audit client of DEKP LLP, a public accounting firm. PS is a small company involved in buying and selling of office stationery to corporate customers. The audit senior of DEKP met the accountant of PS for a planning meeting. Extracts of the meeting notes are as follows:

Supplier invoices (accounts payable)
Supplier invoices are dropped in a box in the accounting department when received. When a supplier chases for payment, the bookkeeper searches the box for the invoice. If the invoice is found, the accountant will prepare a payment voucher and cheque for two directors to sign.

If the invoice cannot be found, as happens sometimes, the bookkeeper asks the supplier to send a replacement invoice. When the director approves the payment voucher and signs the cheque, the bookkeeper updates the general ledger, as purchases and accounts payable. When the payment is shown in the bank statement subsequently received, the bookkeeper updates the cashbook, as cash at bank and a reduction of accounts payable.

Sales invoices (accounts receivable)
Sales invoices are printed in three parts. The first part is sent to the customer with the goods. The second part is filed in a green folder in the sequence of invoice numbers. The third part is filed by customer in a red folder. Every day the bookkeeper looks at the sales invoices in the red folder and calls the customers to remind them of payment. When a cheque is received from a customer, the bookkeeper removes the invoice paid from the red folder and updates the cashbook and the general ledger with the following journal entry:

Date
Dr Cash at Bank $ amount
Cr Revenue $ amount

Being to [narration]
Question 1 required:

(a) For the accounts payable balances, identify and explain FOUR assertions that are most exposed to the risk of material misstatement. For each assertion, state ONE substantive procedure (other than accounts payable circularisation) to be performed in the final audit. You should present your answer in the following format:

<table>
<thead>
<tr>
<th>Most affected assertion (0.5 mark per assertion identified)</th>
<th>Reason (1 mark each)</th>
<th>Substantive procedure (1 mark each)</th>
</tr>
</thead>
</table>

(10 marks)

(b) For the accounts receivable balances, identify and explain ONE assertion that is most exposed to the risk of material misstatement. For the assertion identified, state ONE substantive procedure to be performed. You should present your answer in the following format:

<table>
<thead>
<tr>
<th>Most affected assertion (0.5 mark per assertion identified)</th>
<th>Reason (1 mark each)</th>
<th>Substantive procedure (1 mark each)</th>
</tr>
</thead>
</table>

(2.5 marks)

(c) For the risk of material misstatement identified in (b) above in relation to accounts receivable, recommend ONE improvement in the accounting process to minimise the risk of material misstatement.

(1.5 marks)
(d) Identify and explain TWO internal controls that are present in the recording of the sales invoices. For each internal control identified, state the assertion that is addressed by the internal control. You should present your answer in the following format:

<table>
<thead>
<tr>
<th>Internal control (1 mark each)</th>
<th>Assertion (0.5 mark each)</th>
</tr>
</thead>
</table>

(3 marks)

A newly recruited audit assistant is puzzled by the following two audit procedures in the audit programme for accounts receivable:

- Select sample receipts recorded in the post year-end bank statement, trace the receipts to the sales invoices and to the ledgers.

- Select a sample of accounts receivable in the ledgers at year-end and trace details to post year-end bank statements.

To the audit assistant, these two procedures are similar.

(e) Explain the difference between these two audit procedures in terms of the assertions addressed. (2 marks)

During the audit, the audit senior reviewed the section of working papers on Cash at Bank and noted the audit assistant documented that the audit procedures were not applicable, because the company does not perform a bank reconciliation.

(f) Advise Pay Slow Pte Ltd of FOUR potential risks arising from the practice of not performing a bank reconciliation at least once a month. (6 marks)

(Total: 25 marks)
Question 2 – (a)

City Express Pte Ltd (CE) is a used car trader. CE buys cars from owners, repairs and refurbishes the cars, and then sells them for a profit. During the year, CE started providing car maintenance and repair services, and expanded the existing showroom to house a repair workshop.

The showroom can house up to ten cars and the workshop has the capacity to work on five cars at any one time. All spare parts and components for repair work are kept in the workshop. There is a car park located behind the showroom and workshop that has capacity for 100 cars. CE is doing well and there are about 60 cars for sale and 30 cars undergoing maintenance and repair work on an average day. Routine car maintenance usually takes less than a day to complete and repairs can take between one day and one week. A car repair docket is created for every car sent in for maintenance or repair. The docket is sequentially numbered. This repair docket is used to record the maintenance and repair work carried out, the spare parts used, and the hours spent by technicians working on the cars. Once the car maintenance or repair is complete and signed off by the Technical Manager, the completed docket is sent to the accounting department to enter the cost details of the service in the accounting system.

The company’s year-end is 30 April 20x7. The financial controller (FC) sent you, the audit senior in charge of this audit engagement, a draft year-end inventory (stock) count instruction, which the FC intends to issue to the inventory count staff. The FC wants to hear any suggestions you have to improve the inventory count procedure before finalising the instruction. The draft inventory count instruction is as follows:
<table>
<thead>
<tr>
<th>Year-End Inventory (Stock) Count Instruction</th>
</tr>
</thead>
<tbody>
<tr>
<td>From: The Financial Controller</td>
</tr>
<tr>
<td>To: All inventory count team members</td>
</tr>
<tr>
<td>Date of inventory count: 28 April 20x7</td>
</tr>
</tbody>
</table>

*Start time:* 7 p.m. 1 hour after the workshop and showroom close for business.  
*End time:* 9 p.m.

**Team A:** 1 staff member from the accounting department – responsible for the count in showroom.

**Team B:** 2 staff members from the accounting department – 1 responsible for the count in the East Wing and 1 responsible for the count in the West Wing of the car park.

Both teams are required to count the cars owned by CE. Cars sent in by customers for repair and maintenance will not be counted.

Blank inventory count sheets will be given and count staff are required to record the car registration number, model, and colour on the inventory count sheets. At the end of the count, the Financial Controller will collect the inventory count sheets.
Question 2 required:

(a) Identify FIVE deficiencies in the inventory (stock) count processes, including the inventory count instruction. For each deficiency, describe the potential problems and recommend ONE improvement to make the inventory count accurate. You should present your answer in the following format:

<table>
<thead>
<tr>
<th>Deficiency (1 mark)</th>
<th>Potential problems (2 marks)</th>
<th>Recommendation (2 marks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Describe the inventory count deficiency</td>
<td>Describe the potential impact of the deficiency on the accuracy of the inventory count.</td>
<td>Suggested improvement</td>
</tr>
</tbody>
</table>

(25 marks)

(Total: 25 marks)
Question 3 – (a) through (e)

OM Pte Ltd (OM) is a tool supplier that supplies the marine sector. Its customers include shipyards and vessel operators. The company's year-end is 31 March 20x7.

Revenue for 20x7 was lower than that for 20x6, because of the general slowdown in the marine sector. The following ratios were calculated using the trial balance figures as part of the analytical procedures during the audit planning stage. The trial balance figures are preliminary, as year-end procedures, such as impairment analysis, have not yet been performed.

<table>
<thead>
<tr>
<th></th>
<th>31 March 20x7</th>
<th>31 March 20x6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables turnover (in days)</td>
<td>100</td>
<td>60</td>
</tr>
<tr>
<td>Inventory turnover (in days)</td>
<td>120</td>
<td>90</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>0.8</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Other information obtained during planning meeting

The Cash and Cash Equivalents balance at 31 March 20x7 was $8 million (20x6: $32 million). There was a $40 million bond payable to various individual bondholders and some corporate bondholders, and $20 million of the bond is repayable on 30 September 20x7. The management of OM is seeking a repayment extension from these bondholders.

OM obtains its main supplies under a distribution agreement that stipulates an annual minimum volume commitment. If OM buys below the minimum volume, the supplier has the right to terminate the distribution agreement and cease supplying to OM by giving one month’s notice.

OM's management has appointed an estate agent to sell its head office building to raise cash. If the sale is successful, OM will move its head office function to a rented office.
Question 3 required:

(a) Identify FOUR indicators that OM Pte Ltd is facing significant uncertainty affecting its ability to continue as a going concern. For each indicator, explain how it affects the going concern assumption for the company. (8 marks)

<table>
<thead>
<tr>
<th>Indicator (0.5 marks)</th>
<th>Explanation (1.5 marks)</th>
</tr>
</thead>
</table>

(b) Describe ONE audit procedure to verify the validity of management's action in addressing each of the following problems:

(i) Seeking a repayment extension from the bondholders; and (2 marks)

(ii) Selling the head office building to raise cash. (2 marks)

(c) In accordance with Singapore Financial Reporting Standard (SFRS) 1 Presentation of Financial Statements, describe how the going concern issue should be addressed in the financial statements if OM Pte Ltd is a going concern, but faces material going concern uncertainty. (3 marks)
(d) Assuming OM Pte Ltd is a going concern, but faces material uncertainty related to the going concern assumption, describe the impact of this situation on the audit opinion and the audit report if:

(i) OM Pte Ltd’s financial statements are prepared in accordance with Singapore Financial Reporting Standard (SFRS) 1 Presentation of Financial Statements; and

(ii) OM Pte Ltd’s financial statements are not prepared in accordance with Singapore Financial Reporting Standard (SFRS) 1 Presentation of Financial Statements.

(e) Identify and explain the risk of material misstatements relating to:

(i) Accounts receivable; and

(ii) Inventory.

(Total: 25 marks)
Question 4 – (a) through (e)

You have just been appointed as an audit senior assigned to review work done by the new audit assistant on the audit of accounts receivable and accounts payable of Robin Yee Pte Ltd (RY) for the year ended 31 October 20x7. RY is an office stationery wholesaler, selling paper, envelopes, pens, etc. to retailers and large offices.

All RY’s customers are local and deliveries are made by RY’s delivery staff. A copy of the delivery note signed by the customer is forwarded to the billing department to prepare the sales invoice.

The total accounts receivable balance at year end was $15 million, made up of 50 customers. Circularisation has been performed for 20 samples that amounted to $10 million. Most of the customers confirmed their balances except for the following:

Confirmation replies (summary of outstanding issues)

<table>
<thead>
<tr>
<th>Customer</th>
<th>Balance per ledger</th>
<th>Balance per confirmation</th>
<th>Remark (issue)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Shenglong Stationery (SS)</td>
<td>$48,123</td>
<td>$32,234</td>
<td>SS stated in the reply that a remittance made on 29 October 20x7 for an amount of $15,889 was not recorded by RY</td>
</tr>
<tr>
<td>(2) Premium Office Supplies (POS)</td>
<td>$33,489</td>
<td>$22,211</td>
<td>Invoice 99 - $11,278 dated 31 October 20x7 was not recorded by POS</td>
</tr>
<tr>
<td>(3) MS Pte Ltd (MS)</td>
<td>$42,444</td>
<td>$12,088</td>
<td>Invoice 111 - $30,356 was disputed by MS because of defects</td>
</tr>
<tr>
<td>(4) ET Consulting</td>
<td>$37,733</td>
<td>-</td>
<td>No reply</td>
</tr>
</tbody>
</table>
Question 4 required:

(a) For each confirmation reply above:

(i) Describe ONE further audit procedure to be performed to resolve each issue listed.  
   (6 marks)

(ii) Explain the purpose of each audit procedure in (i) above.  
     (6 marks)

Please present your answer for (a) and (b) in the following format:

<table>
<thead>
<tr>
<th>(i) Audit procedure</th>
<th>(ii) Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>(2)</td>
<td></td>
</tr>
<tr>
<td>(3)</td>
<td></td>
</tr>
<tr>
<td>(4)</td>
<td></td>
</tr>
</tbody>
</table>

The audit programme for accounts payable included the following procedures:

- Select samples of payments recorded in the bank statements for the months ended 30 November 20x7 and 31 December 20x7, and trace the samples selected to the respective payment vouchers, and:
  - Inspect the payment vouchers for evidence of approval;
  - Review supporting documents; and
  - Trace the transactions to the accounts payable ledger.

The new audit assistant does not understand the above audit procedures and has asked you for clarification before proceeding to perform these procedures.
(b) Outline the TWO specific assertions tested by the above audit procedures and explain why these assertions are important to test.  

(4 marks)

(c) With respect to the payment vouchers, outline the type of evidence of approval the audit assistant should look for.  

(1 mark)

(d) With respect to accounts payable, list FOUR types of supporting documents the audit assistant should review.  

(2 marks)

(e) With respect to accounts payable, describe why the following scenarios (red flags) require further audit attention:

(i) If supporting documents cannot be found;  

(2 marks)

(ii) If transactions are not recorded in the accounts payable ledger; and  

(2 marks)

(iii) If transactions are recorded in the accounts payable ledger in the wrong month.  

(2 marks)

(Total: 25 marks)
## Appendix A - Common verbs used by the Examiner

<table>
<thead>
<tr>
<th>Verb</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advise / Give advice</td>
<td>This type of question requires you to give specific guidance to an individual or a group (e.g. a taxpayer, audit client, management, etc.), so your answer must provide specific information or make a recommendation tailored to the individual or group and <strong>justify</strong> you position.</td>
</tr>
<tr>
<td>Describe</td>
<td><strong>Describe</strong> requires you to provide the characteristics and features of an item or situation without going into step-by-step <strong>detail</strong> of how to perform that procedure.</td>
</tr>
<tr>
<td>Explain</td>
<td><strong>Explain</strong> requires you to write at least several sentences conveying how you have <strong>analysed</strong> the information in a way that a layperson can easily understand the concept or grasp the technical issue at hand.</td>
</tr>
<tr>
<td>Identify</td>
<td><strong>Identify</strong> is similar to <strong>list</strong>, but requires you to also provide an <strong>explanation</strong> as to why the item/s that you have <strong>identified</strong> is/are relevant to the facts given in the question.</td>
</tr>
<tr>
<td>In accordance with</td>
<td>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.</td>
</tr>
<tr>
<td>Justify</td>
<td>Whenever you see <strong>justify</strong>, you must provide reasons for your answer, in other words, provide support for your argument or conclusion. If you fail to <strong>justify</strong> your answer, you will lose valuable marks.</td>
</tr>
<tr>
<td>List</td>
<td><strong>Prepare</strong> an itemised <strong>list</strong>.</td>
</tr>
<tr>
<td>Outline</td>
<td><strong>Outline</strong> requires you to provide a general overview of the situation and indicate the main features.</td>
</tr>
<tr>
<td>Prepare</td>
<td><strong>Prepare</strong> requires you to produce your answer using a specific format. For instance, “<strong>Prepare</strong> the Statement of Cash Flows for …” or “<strong>Prepare</strong> all the relevant journal entries for …”.</td>
</tr>
<tr>
<td>State</td>
<td><strong>State</strong> is similar to <strong>list</strong>, but the items require your professional judgement. For instance, “<strong>State</strong> any restrictions that apply”. One of the easiest ways to make sure that you <strong>state</strong> comprehensively is to think, &quot;<strong>list and justify</strong>&quot;.</td>
</tr>
<tr>
<td>Recommend</td>
<td>Make a statement about the most appropriate course of action. If there is more than one possible course of action, <strong>state</strong> which action you would choose and why (<strong>justify</strong> your choice). Your professional judgment and your ability to <strong>interpret</strong> 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 <strong>recommendation</strong>.</td>
</tr>
</tbody>
</table>