Chartered Professional Accountants | CPA PROFESSIONAL PROGRAM

Sample CPA Professional Program Exams - Objective-Format Questions

The sample examination questions provided in this package are intended to offer a general indication of the format, structure, and nature of questions that candidates may encounter. While these materials have been developed with careful consideration and are intended to be broadly representative, they are not exhaustive and cannot capture the full range of possible question variations. These samples should therefore be used as a guide rather than a definitive representation.

Note to reader: Objective format-questions may include, but are not limited to: multiple-choice questions, multiple-select questions, fill in the blank, etc.

KNOWLEDGE ASSESSMENT – PART A

Assurance and trust

Sample question 1

An audit firm is considering accepting a new audit engagement for a privately held company. Management recently dismissed the predecessor auditor after disputes regarding revenue recognition policies.

Select the procedure that would normally be performed by the prospective auditor before accepting the engagement.

a. Communicating with the predecessor auditor to better understand the reasons for the change in auditor.

b. Requesting that management prepare draft financial statements before deciding whether to accept the engagement.

c. Determining the level of audit fees that will be charged before considering other acceptance factors.

d. Defining the scope of audit procedures that will be performed during the engagement.

Solution:

A. Correct. CAS 220.A56 states: "Law, regulation, or relevant ethical requirements may require the successor auditor to request, prior to accepting the audit engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's judgment, the successor auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, if the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, the IESBA Code35 requires that the predecessor auditor, on request by a proposed successor auditor, provide all relevant facts and other information concerning such non-compliance that, in the predecessor auditor's opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment." Therefore, a prospective auditor, with client permission, to communicate with the predecessor auditor to understand the reasons for the change in auditors, including any disagreements with management, before accepting the engagement.

B. Incorrect. Preparing draft financial statements is part of management's responsibilities for financial reporting and is not a prerequisite procedure for the auditor to decide on engagement acceptance.

C. Incorrect. While fee discussions occur, professional standards emphasize evaluating integrity of management, independence, and competence before focusing on fee arrangements.

D. Incorrect. Audit procedures are determined by the auditor based on professional judgment and standards; management cannot define or limit the scope in a way that compromises audit quality. The scope of procedures would not normally be defined prior to acceptance.

Sample question 2

You, CPA, are conducting the audit planning for Nova Gold Corp. (Nova), a public mining company engaged in exploration. Nova has a large bank loan secured by its investment in land, machinery, and equipment. Key financial figures for Nova are as follows:

EBITDA (negative)	($13,650,000)
Net income (loss)	($24,300,000)
Total revenues	$24,000
Total assets	$42,650,000

Select the most appropriate basis for calculating materiality for Nova.

a. Total assets

b. EBITDA

c. Total revenues

d. Net income

Solution:

A. Correct. Nova is in a capital-intensive industry, and its loan is secured by capital assets. The bank is likely to be concerned with the balance of assets used to secure its loan. While investors will be interested in a return on their investment, they will be less focused on profitability in the exploration phase of the business. Additionally, EBITDA and net income are negative at present, making total assets the most appropriate basis for calculating materiality.

B. Incorrect. Nova is in the exploration phase with nominal revenues. Investors likely do not expect Nova to be profitable at this stage, and EBITDA is negative, making EBITDA a less appropriate basis for calculating materiality.

C. Incorrect. Nova is in the exploration phase with nominal revenues. Given the size of total revenues relative to other financial figures and the expectations of investors and lenders during the exploration phase of a mining company, total revenues would not be appropriate for calculating materiality.

D. Incorrect. Nova is in the exploration phase with nominal revenues. Investors likely do not expect Nova to be profitable at this stage, and net income is negative, making net income a less appropriate basis for calculating materiality.

Sample question 3

You, CPA, are the audit senior on an engagement for Juke Glass Co. (JGC), a large manufacturing company that makes glass bottles. The manager on the engagement has asked you to conduct procedures that assess the valuation of JGC's accounts receivable.

Select the procedure that is most appropriate for this purpose.

a. Select a representative sample of balances in accounts receivable and trace to subsequent payment of these amounts received in the bank after year-end.

b. Trace the balances in accounts receivable to copies of the invoices issued to customers and ensure the amounts agree.

c. Select a representative sample of balances in accounts receivable and send confirmation requests asking customers to confirm that the amounts owing agree to their records.

d. Select the five oldest balances in accounts receivable and discuss with management whether they expect to receive payment from these customers.

Solution:

A. Correct. This procedure tests the valuation of accounts receivable by ensuring their collectability.

B. Incorrect. This procedure tests the accuracy of accounts receivable by ensuring there are no significant differences between the amounts billed and the amounts recorded as receivable.

C. Incorrect. This procedure tests the accuracy and existence of accounts receivable by ensuring there are no significant differences between the amounts recorded as receivable and the records of the customers. A customer confirming the amount owing does not guarantee they are willing or able to pay it.

D. Incorrect. While this procedure tests the valuation of accounts receivable, it relies on commentary from management, a less reliable form of audit evidence because it is not third-party evidence.

Big data and data analytics

Sample question 4

A CPA is tasked with analyzing whether a new employee training program improved productivity. Before collecting any data, the CPA must define the analysis question. Select the best-defined data analysis question for this project.

a. Did average output per employee increase in the 3 months following the training, compared to the 3 months prior to training?

b. Did the average number of overtime hours worked by employees decrease in the 3 months following the training, compared to the 3 months prior to training?

c. Did the average number of customer service tickets resolved per employee decrease in the 3 months following the training, compared to the 3 months prior to training?

d. Did the average error rate per employee decrease in the 3 months following the training, compared to the 3 months prior to training?

Solution:

A. Correct. This option directly targets the key outcome of interest (employee output), specifies a clear metric (average output per employee), and defines a precise comparison window (3 months before versus 3 months after the training). It aligns with good data analytics practice by focusing on a measurable performance indicator over a defined period, allowing for statistical comparison of pre- and post-training productivity.

B. Incorrect. This option focuses on overtime hours rather than core productivity, which may be related but does not directly measure whether the training improved output. A decrease in overtime could reflect employees having less work, more staff having been added, etc., so it is not the best-defined question for assessing productivity gains.

C. Incorrect. This option measures a specific service activity but is the opposite of the key outcome of interest, since the company would want an increase in customer service tickets resolved. While it is a measurable metric, it does not align with the project objective of determining whether productivity improved, and it narrows the focus to customer service tickets only.

D. Incorrect. This option focuses on error rates, which relate to quality rather than productivity. Although quality is important, the project is framed around productivity improvement, so a question centered on errors does not directly address whether output increased as a result of the training.

Sample question 5

A retail company wants to understand how its product categories contributed to total revenue last quarter.

Select the most appropriate type of analysis for this objective.

a. Descriptive analytics

b. Predictive analytics

c. Prescriptive analytics

d. Diagnostic analytics

Solution:

A. Correct. This objective focuses on summarizing and explaining what happened in the past, specifically how different product categories contributed to revenue in a completed period, which is the purpose of descriptive analytics.

B. Incorrect. Predictive analytics is used to estimate future outcomes based on historical data, such as forecasting next quarter’s sales, rather than explaining how past revenue was distributed across product categories.

C. Incorrect. Prescriptive analytics focuses on recommending actions or strategies to achieve desired future outcomes, not on summarizing how past revenue was generated by different product categories.

D. Incorrect. Diagnostic analytics is used to investigate why certain events occurred, such as identifying causes of a revenue decline, rather than simply outlining how revenue was distributed across categories.

Ethical decision-making and organizational governance/data governance

Sample question 6

Kids Care Inc. is a not-for-profit with this mission: “Kids Care Inc. empowers children to make a meaningful impact in their communities by providing opportunities to volunteer, learn, and support those in need.” The organization is governed by a seven-member board with expertise in social sustainability and legal and financial matters. Management has recently proposed expanding programs into underserved communities, which would require additional funding and new partnerships. Select the statement that best explains the appropriate role of the board in this situation.

a. The board will evaluate and approve the proposed expansion to ensure it aligns with the organization’s mission, sustainability goals, and available resources.

b. The board will develop and implement the detailed operational plan for the new programs to ensure successful execution.

c. The board will secure all required funding and negotiate partnership agreements to support the expansion.

d. The board will establish a board sub-committee to independently design and manage the new programs to ensure alignment with sustainability objectives.

Solution:

A. Correct. Boards of not-for-profit organizations are responsible for governance, which includes setting direction, overseeing strategy, and approving major initiatives to ensure alignment with mission, risk appetite, and resource constraints, while leaving day-to-day planning and execution to management.

B. Incorrect. Developing and implementing detailed operational plans is a management responsibility; the board provides oversight and approval of major initiatives but does not carry out day-to-day operational planning.

C. Incorrect. While the board may support fundraising and relationship building, primary responsibility for securing funding and negotiating agreements typically rests with management, with the board providing oversight and approval of significant arrangements.

D. Incorrect. Board committees support governance functions, but they should not independently design and manage programs, which would inappropriately shift operational responsibilities away from management.

Sample question 7

Clifton & Andy LLP is a CPA firm that rents office space in a downtown professional building managed by a third-party property manager that also provides cleaning services. Firm policy requires staff to lock away all hard copies of client documents in their file cabinet at the end of each day and restricts access to file and supply rooms (including the shredding bin) to staff via firm-issued key cards. Select the CPA Code of Conduct principle that these measures are intended to uphold.

a. Confidentiality

b. Professional competence

c. Integrity

d. Objectivity

Solution:

A. Correct. The described controls focus on preventing unauthorized access to client information by third parties such as building management and cleaners. Locking documents away and restricting access to storage and shredding areas are safeguards designed to protect client information from being disclosed, whether intentionally or accidentally. This aligns directly with the ethical requirement that professional accountants must protect information acquired as a result of professional and business relationships and must not disclose such information without proper authority.

B. Incorrect. Professional competence relates to maintaining knowledge and skill at a required level. While implementing appropriate office procedures can be part of professional competence, it is not the primary principle addressed by the described measures.

C. Incorrect. Integrity requires professional accountants to be straightforward and honest in all professional and business relationships. It involves fair dealing and truthfulness. The scenario does not focus on honesty or truthfulness in reporting or communication, but rather on physical safeguards over client information. Therefore, integrity is not the primary principle being addressed by the described measures.

D. Incorrect. Objectivity requires that professional accountants do not compromise their professional or business judgment because of bias, conflict of interest, or undue influence. The scenario does not describe threats to impartial judgment or conflicts of interest. Instead, it describes physical and access controls over client records, which are more closely related to protecting information than to maintaining impartial judgment.

Finance

Sample question 8

An outdoor landscaping company experiences seasonal cash shortages each winter and estimates it will require up to $500,000 in financing for approximately four months each year. It is considering the following options:

- Option 1: Line of credit at 8%, used only when needed
- Option 2: Term loan at 6% for the full $500,000, outstanding for the entire year

Select the most appropriate assessment of the financing options.

a. The line of credit is more appropriate because it results in lower total financing cost and better matches the company's short-term, seasonal cash needs.

b. The term loan is more appropriate because it has a lower interest rate, resulting in lower overall financing cost.

c. Both options result in similar financing costs, as the higher rate on the line of credit is offset by its shorter borrowing period.

d. The term loan is more appropriate because it provides certainty of funding and avoids the risk of fluctuating borrowing needs.

Solution:

A. Correct. Although the line of credit has a higher stated rate of 8%, interest is incurred only during the 4-month period when funds are actually drawn, amounting to $13,333 in interest ($500,000 x 8% x 4 months / 12 months). In contrast, the term loan at 6% requires paying interest on $500,000 for 12 months, amounting to $30,000 in interest, even though the funds are only needed for 4 months. For a seasonal working capital requirement, a short-term revolving structure minimizes total interest cost and better matches the duration of the cash flow gap.

B. Incorrect. This assessment focuses only on the nominal interest rates and ignores the fact that the term loan requires paying interest for 12 months, even though the funds are only required for 4 months. Evaluating financing solely on the basis of the stated rate, without considering the actual borrowing period and amount outstanding, is insufficient for making an informed decision on the appropriate financing tool.

C. Incorrect. The total interest cost on the revolving credit facility for 4 months at 8% is significantly lower than paying 6% on the same principal for 12 months. Treating the costs as similar disregards the period over which interest accrues, which contradicts basic time-value-of-money concepts.

D. Incorrect. While committed funding can be valuable, paying for capital that is not required for the remaining 8 months is inefficient for a predictable, recurring seasonal requirement. Best practice is to match the term of the financing instrument to the duration of the underlying cash flow need, which favours a short-term line of credit in this scenario.

Sample question 9

Coffee Craze Inc. is considering financing an expansion into a more central downtown location through either taking new debt or issuing common shares. The company currently has a moderate level of debt and equity financing.

Select the most appropriate description of the impact the financing options would have on the company's capital structure.

a. Financing with debt increases the proportion of liabilities in the capital structure, while issuing shares increases the proportion of equity.

b. Financing with debt and issuing shares both increase total assets, so they have the same impact on capital structure.

c. Financing with equity improves the company's capital structure by reducing reliance on external financing, while debt financing has no impact on the overall capital structure.

d. Financing with debt increases total financing available without affecting ownership, while issuing shares increases ownership but has a limited impact on the overall capital structure.

Solution:

A. Correct. Debt financing is recorded as a liability and, therefore, raises the share of liabilities relative to equity, whereas issuing common shares raises contributed capital and, therefore, increases the equity share of the capital structure.

B. Incorrect. Both debt and equity financing can increase total assets, but they affect the composition of liabilities and equity differently, so they do not have the same impact on capital structure.

C. Incorrect. Equity is also a form of external financing from investors, and debt financing directly changes the mix between liabilities and equity, so debt does affect the overall capital structure.

D. Incorrect. Issuing shares significantly changes the proportion of equity in the capital structure, so its impact on the capital structure cannot be considered limited.

Sample question 10

Toptech Manufacturing Inc. is evaluating an investment in the following AI-enabled equipment to increase efficiency in production:

- Initial investment: $300,000
- Estimated useful life: 5 years
- Estimated annual net cash inflows from increased efficiency: $80,000
- Residual value: $20,000
- Required rate of return: 10%

A competitor has recently launched a new product that management believes will reduce Toptech's demand and lower the equipment's annual net cash inflows by 20%.

Input the most appropriate estimate of the investment's net present value, to the nearest hundred dollars.

Solution:

$45,000

Revised annual net cash inflows = $64,000 ($80,000 × 80%)

PV of annual inflows = $242,610.35 (Excel PV formula with inputs as follows: RATE = 0.10; NPER = 5; PMT = $64,000)

PV of residual value = $12,418.43 (Excel PV formula with inputs as follows: RATE = 0.10; NPER = 5; FV = $20,000)

Total PV of cash inflows = $255,028.78

NPV = $255,028.78 − $300,000 = $(44,971.22) or $(45,000) rounded

Non-financial reporting

Sample question 11

An investor would like to identify specific metrics relevant to evaluating the sustainability-related performance of companies operating in the biotechnology and pharmaceuticals industry.

Select the set of standards that is the most useful in helping the investor identify appropriate metrics.

a. Sustainability Accounting Standards Board (SASB) standards
b. Global Reporting Initiative (GRI) standards
c. Climate Disclosure Standards Board (CDSB) standards
d. CDP (formerly Carbon Disclosure Project) questionnaires

Solution:

A. Correct. The SASB standards provide specific metrics for sustainability-related disclosure, categorized by industry.
B. Incorrect. GRI standards are designed primarily for broad stakeholder reporting, with less emphasis on investors. The standards are comprehensive, but not industry-specific at the level of reporting metrics.
C. Incorrect. The CDSB standards, while investor focused, are industry-agnostic and do not provide industry-specific sustainability performance metrics.
D. Incorrect. The CDP is a disclosure platform that acts as a de-facto standard for measuring and managing environmental risks and opportunities. While it includes industry-specific supplements, it would not be the best source for industry-specific sustainability performance metrics.

Sample question 12

A company reports that its Scope 1 greenhouse gas emissions decreased by 15% year over year, while its production volume increased by 20%.

Select the statement that is best supported by this data.

a. The company has improved its emissions intensity per unit of production.

b. The company's absolute emissions are decreasing, and it is on track to meet net-zero targets.

c. The decrease in emissions was likely caused by switching to renewable energy.

d. The company's Scope 2 and Scope 3 emissions have decreased proportionally to the decrease in Scope 1 emissions.

Solution:

A. Correct. When emissions fall while production rises, emissions intensity per unit of production improves. This company is producing more with a lower emissions footprint per unit.

B. Incorrect. While absolute Scope 1 emissions did decrease, we cannot conclude from a single year's data that the company is on track to meet net-zero targets. Net-zero alignment requires understanding the full emissions profile, including Scope 1, 2, and 3, on a multi-year trajectory. This information cannot be inferred from the data provided.

C. Incorrect. We cannot determine the cause of the emissions decrease from the data provided. Additional quantitative and qualitative information about the drivers of change is necessary to reach a causal conclusion.

D. Incorrect. The data provided pertains only to Scope 1 emissions from company-owned or -controlled sources. No information is provided about Scope 2 or Scope 3, and it is not possible to conclude on decreases in these emissions areas without more information.

Strategy, risk management, and innovation

Sample question 13

FeelGood Health Inc. is a Vancouver-based wellness studio offering recovery services such as contrast and red-light therapy. Over the past few years, it has incurred a high level of debt to invest in the required technology for these types of services. Recently, social media skepticism about contrast therapy and increased competition from new studios have emerged. Customers in the target demographic has also seen a drop in disposable income.

Select the factor that represents a weakness for FeelGood in a SWOT analysis.

a. High level of debt incurred to investment in the required technology

b. Increased competition from similar studios recently entering the market

c. Decreased disposable income for customers in the target demographic.

d. Growing skepticism on social media about the benefits of contrast therapy

Solution:

A. Correct. Weaknesses in a SWOT analysis refer to internal limitations that place a company at a disadvantage. FeelGood's high level of debt puts it at risk of not being able to acquire further debt, potentially restricting its growth, and puts it in at higher risk at being able to adequately service its debt, should revenue levels decline or become more volatile.

B. Incorrect. Increased competition from similar studios is an external factor outside of FeelGood's control. In a SWOT analysis, this would be classified as a threat.

C. Incorrect. Decreased disposable income for customers is an externa factor outside of FeelGood's control. In a SWOT analysis, this would be classified as a threat.

D. Incorrect. Growing skepticism about contrast therapy on social media is an external factor. Negative public perception can pose a threat to the business, so in a SWOT analysis, this would be classified as a threat.

Sample question 14

Comfy Chairs Co. is an early-stage startup in Manitoba that manufactures ergonomic office chairs using locally sourced materials and sustainable processes. It currently serves the financial services sector in Manitoba and plans to expand across Canada in the future. The CEO is developing the company's mission and vision as part of an investor presentation.

Select the option that represents the most appropriate mission statement for Comfy Chairs Co.

a. We create happiness and comfort by offering the finest selection of stylish, safe, and plush chairs to help you achieve your professional goals.

b. We create a product so exceptional that there is a Comfy Chair in every office across Canada.

c. We are dedicated to delivering high-quality products and exceptional customer service.

d. We strive to lead the industry in innovation by continuously redefining the future of workplace seating.

Solution:

A. Correct. This option focuses on the company's present purpose, what it offers now, and the value it provides to customers, which are key characteristics of a mission statement.

B. Incorrect. This option describes a long-term aspirational outcome about future market reach, which aligns more closely with a vision statement than a mission statement.

C. Incorrect. Although this option states values and commitments, it is too generic and does not clearly describe the specific business, customers, or offerings, making it incomplete as a mission statement.

D. Incorrect. This option focuses on future-oriented leadership and innovation, which is more aligned with a vision statement than a present-focused mission statement.

Tax

Sample question 15

Chrisco, Jennco, and Biffco are Canadian-controlled private corporations. Each has a December 31 year-end. Chrisco owns 80% of the issued shares of Jennco and 5% of the issued shares of Biffco. During 2026, Chrisco received taxable dividends of $100,000 from each of Jennco and Biffco. Jennco and Biffco received dividend refunds of $15,000 each for 2026.

Select the amount that represents Chrisco's Part IV tax payable for 2026.

a. $50,333.33

b. $38,333.33

c. $62,333.33

d. $40,000.00

Solution:

A. Correct. Answer calculated as (38.33% x $100,000) + (80% x $15,000) = $50,333. Part IV tax on portfolio dividends from Biffco is 38.33% of $100,000, which is $38,333.33. In addition, Part IV tax applies on 80% of Jennco's dividend refund of $15,000, which is $12,000. The total Part IV tax is, therefore, $38,333.33 + $12,000 = $50,333.33.

B. Incorrect. This amount reflects only the 38.33% Part IV tax on the $100,000 portfolio dividend from Biffco and ignores the additional Part IV tax attributable to the dividend refund of the connected corporation, Jennco.

C. Incorrect. This amount reflects the 38.33% Part IV tax on the $100,000 portfolio dividends but incorrectly applies 80% to the $15,000 dividend refund of both Jennco and Biffco. Part IV tax is attributable only to the dividend refund of Jennco, as a connected corporation.

D. Incorrect. This figure approximates 40% of the $100,000 portfolio dividend and does not correctly apply the statutory 38.33% rate or the additional Part IV tax attributable to the dividend refund of the connected corporation.

Sample question 16

Reed Ltd. is a Canadian-controlled private corporation. For the year ended December 31, 2026, the company's net income for tax purposes consisted of the following:

Income from Canadian retail business, net of capital cost allowance	$240,000
Income from disposal of warehouse used in the retail business:	
- taxable capital gain	45,000
- recaptured capital cost allowance	130,000
Dividends received from Collins Ltd., an associated corporation, carrying on a manufacturing business in Canada	50,000
Interest received from Collins Ltd. on inter-company loan, which Collins used for purposes of earning income (Collins has deducted the interest in its active business income)	10,000
Interest received on accounts receivable outstanding for more than 60 days, related to the Canadian retail business	2,000
	$477,000

Select the amount that represents the active business income of Reed Ltd. for 2026.

a. $382,000

b. $302,000

c. $240,000

d. $432,000

Solution:

A. Correct. Business income of $240,000 + recapture $130,000 + interest $10,000 + $2,000 = $382,000.

Active business income generally includes income from a business carried on in Canada, including recaptured capital cost allowance and interest on trade receivables, but excludes most portfolio dividends and certain inter-corporate interest. Applying the Canadian Income Tax Act rules to the given components yields $382,000 as the amount derived from ongoing commercial operations.

B. Incorrect. This incorrectly includes the dividends but excludes the recaptured depreciation: $240,000 + $50,000 + $10,000 + $2,000 = $302,000.

C. Incorrect. This only includes business income.

D. Incorrect. This incorrectly includes the dividends: $240,000 + $130,000 + $50,000 + $10,000 + $2,000 = $432,000.

Sample question 17

Emily turned 60 in February 2026 and retired immediately. Her income from all sources for 2026 was as follows:

Employment income	$30,000
Spousal support ($1,000 received monthly)	12,000
Pension income	11,000
Retiring allowance	10,000
Canada Pension Plan	7,000
Death benefit – from late husband's employer	4,000
RRSP withdrawal	7,000
	$81,000

Emily did not qualify for the Old Age Security supplement. She did not make any RRSP contributions in 2026.

Select the amount that represents Emily's taxable income for 2026.

a. $77,000

b. $81,000

c. $70,000

d. $65,000

Solution:

A. Correct. All items are included except for the death benefit (the first $10,000 of a death benefit received from an employer is not subject to tax).

B. Incorrect. This amount incorrectly assumes that the entire $4,000 death benefit is taxable, rather than recognizing that only a limited portion may be included in income.

C. Incorrect. This amount incorrectly excludes the RRSP withdrawal.

D. Incorrect. This amount incorrectly excludes the spousal support.

Foundational competencies

Sample question 18

Select the statement that explains what consumer surplus is in microeconomics.

a. The difference between the maximum amount a buyer is willing to pay for a unit and the amount actually paid

b. The difference between the total revenue a firm receives and its total cost

c. The difference between the total revenue a firm receives and its total variable cost

d. The total value of all exports

Solution:

A. Correct. This describes the standard definition of consumer surplus as the gap between willingness to pay and the market price.

B. Incorrect. This describes net income, not consumer surplus.

C. Incorrect. This corresponds partially to contribution margin, not consumer surplus.

D. Incorrect. This option describes a trade measure related to international economics, not a surplus enjoyed by buyers in a market.

Sample question 19

John has developed expense reporting software and is considering creating a startup. From a liability perspective, select the response that best explains why he might choose to incorporate rather than operate as a sole proprietor or in a general partnership.

a. To create a separate legal entity that generally limits his personal exposure to business obligations while allowing the business to enter contracts in its own name

b. To ensure he is automatically exempt from all professional negligence claims arising from the software's use

c. To ensure tax authorities will not reassess his personal income tax returns in relation to the business

d. To obtain a governance framework that separates ownership and management while providing access to formal equity financing mechanisms

Solution:

A. Correct. Incorporation creates a distinct legal person, so creditors usually claim against corporate assets rather than the owner's personal assets, subject to statutory and common law exceptions.

B. Incorrect. Incorporation does not provide automatic immunity from professional negligence; directors and professionals can still be personally liable for their own wrongful acts.

C. Incorrect. Tax authorities retain the power to reassess both corporate and personal returns; incorporation does not eliminate reassessment risk.

D. Incorrect. While corporations can provide a governance framework with shares and boards, facilitating separation of ownership and management and access to equity financing, there does not need to be a separation of ownership and management at this point given the size of the company.

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KNOWLEDGE ASSESSMENT – PART B

Financial reporting

Sample question 20

Atomic Ventures Inc. (AVI) has made a non-strategic investment in Sunshine Co. (Sunshine), a public company, for 5% of Sunshine's shares. AVI plans to hold the investment in Sunshine Co. for a minimum of 3 years and prepares its financial statements according to IFRS.

From the following bases for measurement, select those that are appropriate for AVI to classify its investment in Sunshine. (Select two items.)

a. Fair value through profit or loss (FVTPL) method

b. Fair value through other comprehensive income (FV-OCI) method

c. Cost method

d. Equity method

Solution:

A. Correct.

IFRS 9 Financial Instruments provides guidance on this issue. IFRS 9.4.1.4 states:

"A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost in accordance with paragraph 4.1.2 or at fair value through other comprehensive income in accordance with paragraph 4.1.2A."

Paragraphs 4.1.2 and 4.1.2A apply to debt instruments and would not be applicable in this case. IFRS 9.4.1.4 goes on to say,

"However, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income (see paragraphs 5.7.5–5.7.6)."

Paragraph 5.7.5 indicates this instrument should be neither "held for trading" nor contingent consideration recognized by an acquirer in a business combination. A financial asset is held for trading if it is acquired principally for selling in the near term, is part of a portfolio of financial instruments that are managed together for which there is evidence of a recent actual pattern of short-term profit-taking, or is a derivative. Since this asset is none of these, it qualifies for the irrevocable election to be measured at FV-OCI. Therefore, AVI has the option to classify this investment as either FVTPL or FV-OCI.

B. Correct.

IFRS 9.4.1.4 states:

"A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost in accordance with paragraph 4.1.2 or at fair value through other comprehensive income in accordance with paragraph 4.1.2A."

Paragraphs 4.1.2 and 4.1.2A apply to debt instruments and would not be applicable in this case. IFRS 9.4.1.4 goes on to say,

"However, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income (see paragraphs 5.7.5–5.7.6)."

Paragraph 5.7.5 indicates this instrument should be neither "held for trading" nor contingent consideration recognized by an acquirer in a business combination. A financial asset is held for trading if it is acquired principally for selling in the near term, is part of a portfolio of financial instruments that are managed together for which there is evidence of a recent actual pattern of short-term profit-taking, or is a derivative. Since this asset is none of these, it qualifies for the irrevocable election to be measured at FV-OCI. Therefore, AVI has the option to classify this investment as either FVTPL or FV-OCI.

C. Incorrect.

IFRS 9.4.1.4 states:

"A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost in accordance with paragraph 4.1.2 or at fair value through other comprehensive income in accordance with paragraph 4.1.2A."

Paragraphs 4.1.2 and 4.1.2A apply to debt instruments and would not be applicable in this case.

D. Incorrect.

IFRS 9.4.1.4 states:,

"A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost in accordance with paragraph 4.1.2 or at fair value through other comprehensive income in accordance with paragraph 4.1.2A."

Use of the equity method is not permitted to account for a financial asset under IFRS 9.

Sample question 21

Big Scoop Collective (BSC) is a small chain of ice cream shops. Recently, BSC's owner decided it may be time to purchase a new ice cream maker. Similar machines purchased new cost around $25,000. The owner is unsure about selling the current machine, but if she does, she believes it could be sold for approximately $3,000. If BSC continues to use the machine in its operations, she thinks it would likely contribute annual cash flows of around $2,500 for each of the next 4 years before being scrapped. The machine has a carrying cost of $9,000. BSC reports under ASPE.

Select the statement that best explains whether the machine is impaired.

a. No, the machine is not impaired because the sum of its undiscounted cash flows exceeds the carrying amount of the asset.

b. No, the machine is not impaired because it will continue to generate positive cash flows in subsequent years.

c. Yes, the machine is impaired because the purchase price of a new machine exceeds the carrying amount of the asset.

d. Yes, the machine is impaired because the carrying amount exceeds the fair value of the asset.

Solution:

A. Correct.

ASPE 3063 Impairment of Long-Lived Assets provides guidance on this issue. ASPE 3063.04-.05 states:

"An impairment loss shall be recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value… The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition."

In this case, the sum of the undiscounted cash flows is $2,500 x 4 = $10,000, which remains greater than the carrying amount of the asset, $9,000.

B. Incorrect.

ASPE 3063.04-.05 states:

"An impairment loss shall be recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value… The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition."

An asset's ability to continue generating positive net cash in subsequent years does not necessarily indicate that the asset is not impaired.

C. Incorrect. It is expected that the purchase price of a new machine will exceed the carrying amount of an older machine that has been depreciated for 3 years. This is not an indicator of impairment.

D. Incorrect. While impairment is calculated as the difference between the carrying amount of an asset and its fair value under ASPE 3063, an asset must first fail the recoverability test in order for an impairment loss to be recognized. Since undiscounted future cash flows continue to exceed the carrying amount of the asset, the ice cream maker is not impaired.

Sample question 22

A company that reports under IFRS enters into a 3-year lease for office equipment on January 1, Year 1. Annual lease payments of $12,000 are due at the end of each year. The rate implicit in the lease is 6%. The present value of the lease payments is $32,076.

Select the amount the company would record as the lease liability on the commencement date.

a. $32,076

b. $36,000

c. $20,076

d. $24,000

Solution:

A. Correct. Under IFRS 16 Leases, the obligation at commencement is measured at the present value of the remaining lease payments, discounted using the rate implicit in the lease, if known; discounting 3 annual payments of $12,000 at 6% gives a present value of $32,076. As payments are made at the end of each year, the amount to record at the commencement of the lease is the present value of all lease payments.

B. Incorrect. This amount equals the undiscounted total of 3 payments of $12,000. IFRS 16 requires the lease liability be measured at the present value of future lease payments, not at the undiscounted sum.

C. Incorrect. This amount equals the present value of the future lease payments, less the first payment of $12,000. This would be the correct answer if lease payments were due at the beginning of each year, meaning the first payment would be made at lease commencement and therefore deducted from the total lease liability. Since lease payments are due at the end of each year, this answer incorrectly excludes this initial payment on the lease from the total.

D. Incorrect. This amount equals the undiscounted total of payments of $12,000, less the first payment of $12,000. IFRS 16 requires the lease liability be measured at the present value of future lease payments, not at the undiscounted sum. Further, since lease payments are due at the end of each year, this answer incorrectly excludes this initial payment on the lease from the total.

Sample question 23

You, CPA, are assisting a new small business with setting up their financial reporting systems. Management is aware they have a choice to apply either FIFO or weighted average cost for inventory measurement and is curious about the impact of this decision. Currently, the price of goods is increasing. The company follows ASPE.

Select the most appropriate description of how the choice of inventory costing method will affect the company's net income.

a. The inventory costing choice of FIFO will lead to lower cost of goods sold and higher net income in an environment with increasing prices. Weighted average costing calculates an average cost per unit over the period, resulting in smoothed-out price fluctuations (and impact on income) overall.

b. The inventory costing choice of FIFO will lead to higher cost of goods sold and lower net income in an environment with increasing prices. Weighted average costing can create misleading income results since it smooths out the impact of price fluctuations on income.

c. The inventory costing choice will have no net impact on cost of goods sold or net income each year since, overall, the total cost of inventory will have to be expensed eventually.

d. The inventory costing choice will have no net impact on cost of goods sold or net income each year since the company must report inventory at the lower of cost and net realizable value in either case.

Solution:

A. Correct. FIFO assigns older, lower costs to cost of goods sold, resulting in lower expenses and higher net income as prices are increasing. Weighted average costing is often used to simplify accounting and smooths out the impact on income.

B. Incorrect. FIFO increases income in periods of rising prices. Weighted average costing smooths out income impact but is not intended to produce misleading income results over time.

C. Incorrect. While the total costs expensed are eventually the same under FIFO and weighted average costing, the timing of expense recognition differs between methods, which affects cost of goods sold and net income in each reporting period.

D. Incorrect. Lower of cost and net realizable value is a separate valuation test and does not eliminate differences in the accounting policy choice related to cost; FIFO and weighted average still produce different cost of goods sold and income outcomes.

Sample question 24

FeelGood Health Inc. is a wellness studio offering recovery services such as contrast therapy (sauna and cold plunge). FeelGood recently purchased new sauna equipment for $125,000. FeelGood incurred additional costs, such as $5,000 for shipping, $7,000 for installation, $3,200 to provide staff training to operate the new equipment, and $1,100 for a promotional launch event for members. FeelGood reports under ASPE.

Select the amount FeelGood would capitalize as the cost of the new equipment.

a. $137,000

b. $140,200

c. $136,300

d. $141,300

Solution:

A. Correct. Under ASPE 3061 – Property, Plant and Equipment, the cost of property, plant, and equipment includes the purchase price and costs directly attributable to bringing the asset to the condition necessary for its intended use, such as freight and installation. Therefore, FeelGood should capitalize the purchase price ($125,000), shipping ($5,000), and installation ($7,000), for a total of $137,000. Staff training ($3,200) and the promotional launch event ($1,100) are not directly attributable to preparing the asset for use and should be expensed.

B. Incorrect. The amount of $140,200 includes the purchase price ($125,000) shipping ($5,000), and installation ($7,000) but incorrectly also includes the training ($3,200). Staff training are not directly attributable to preparing the asset for use and should be expensed.

C. Incorrect. The amount of $136,300 includes the purchase price ($125,000), installation ($7,000), staff training ($3,200), and promotional launch event ($1,100). This incorrectly excludes the shipping costs ($5,000) and includes the costs associated with the staff training and promotional launch event. Freight costs necessary to deliver the equipment to its location are directly attributable to preparing the asset for use and must be capitalized.

D. Incorrect. This option incorrectly includes both the training costs ($3,200) and the promotional launch event ($1,100), in addition to the purchase price, shipping, and installation. These costs should be expensed rather than capitalized under ASPE.

Sample question 25

FeelGood Health Inc. is a wellness studio in Vancouver offering recovery services such as contrast therapy (sauna and cold plunge) and red-light therapy. FeelGood sells annual memberships for $1,500, which provide unlimited studio access for one year. On September 1, 2027, FeelGood sold 125 memberships, which cover the period of September 1, 2027, to August 31, 2028. FeelGood reports under ASPE.

For the year ended December 31, 2027, select the amount FeelGood would recognize as membership revenue.

a. $62,500

b. $15,625

c. $125,000

d. $187,500

Solution:

A. Correct. As per ASPE 3400 - Revenue, revenue from services is recognized as the services are performed. The memberships cover 12 months (September 1, 2027 to August 31, 2028), but only 4 months (September to December) relate to the 2027 fiscal year. Monthly revenue per membership is $1,500 ÷ 12 = $125. Revenue recognized per membership is $125 × 4 = $500. For 125 memberships, revenue recognized in 2027 is $500 × 125 = $62,500.

B. Incorrect. This option assumes that only one month of revenue should be recognized. Monthly revenue per membership is $125, and for 125 memberships, this equals $15,625, which understates the revenue earned during the 4 months of service provided in 2027.

C. Incorrect. This amount represents the deferred revenue balance at December 31, 2027. Total cash received is $187,500 ($1,500 × 125). After recognizing $62,500 as revenue, the remaining $125,000 relates to services to be provided in 2028 and should be recorded as deferred revenue.

D. Incorrect. This option incorrectly assumes that the entire membership amount ($187,500 = $1,500 × 125) should be recognized as revenue when cash is received.

Management decision-marking and information (data) systems/technology

Sample question 26

A company is considering adopting a continuous improvement methodology, such as Lean or Six Sigma, to enhance its operational performance. Management expects long-term benefits but is concerned about short-term impacts.

Select the statement that best describes a key advantage and a key disadvantage of implementing continuous improvement initiatives.

a. They can reduce waste and improve process efficiency but may require significant upfront training and implementation costs.

b. They can immediately increase profitability but may reduce product quality during the transition period.

c. They can eliminate the need for performance measurement systems but may increase employee turnover.

d. They guarantee long-term cost savings but may reduce the organization's ability to respond to customer needs.

Solution:

A. Correct. Continuous improvement approaches focus on streamlining activities and eliminating non-value-added steps, which reduces waste and enhances process efficiency. However, introducing these initiatives typically involves substantial initial investment in staff development, project resources, and change management, leading to notable upfront training and implementation costs.

B. Incorrect. While process enhancements can eventually support higher profitability, it is unrealistic to assume an immediate increase in profit, especially given the learning curve and initial disruptions. Moreover, continuous improvement frameworks generally emphasize quality enhancement rather than accepting a decline in product quality during transition.

C. Incorrect. Continuous improvement relies heavily on performance metrics, dashboards, and key indicators to monitor progress, so it does not remove the need for measurement systems. Although poorly managed change can affect retention, increased employee turnover is not an inherent or defining disadvantage of these initiatives.

D. Incorrect. No improvement methodology can guarantee cost savings because outcomes depend on execution, context, and governance. Properly implemented, these initiatives usually enhance responsiveness to customers by shortening cycle times and improving reliability, rather than reducing the ability to respond.

Sample question 27

A mid-sized online retailer sells home décor items and has struggled with inconsistent margins due to frequent price changes by competitors. The company is considering implementing a pricing tool driven by artificial intelligence (AI). The AI system would analyze customer behaviour, competitor pricing, and historical sales patterns to recommend real-time price adjustments.

Select the statement that best describes how such a system could enhance the company's pricing decisions.

a. The system can identify demand patterns and customer willingness to pay, allowing the company to adjust prices to maximize revenues and margins.

b. The system will eliminate the need for managers to review pricing decisions, since it can fully automate the process.

c. The system will ensure that all items are priced at the same margin percentage, simplifying financial reporting.

d. The system will ensure that all discounts are eliminated, since advanced analytics always favour full list prices.

Solution:

A. Correct. Artificial intelligence techniques such as machine learning can detect demand patterns, segment customers, and estimate price sensitivity, which supports dynamic pricing strategies that aim to improve both revenues and margins, rather than simply matching competitors' prices.

B. Incorrect. Even with advanced analytics, managerial oversight is required to set objectives, monitor outcomes, and ensure that pricing decisions align with strategy and other requirements.

C. Incorrect. Uniform margin percentages across all items do not reflect differences in demand, competition, or strategic importance and may reduce overall profitability.

D. Incorrect. Advanced analytics may recommend discounts in some situations, such as clearing inventory or responding to demand fluctuations, rather than always favouring full list prices.

Sample question 28

A company produces a product with a variable cost of $30 per unit and total fixed costs of $150,000. The company plans to produce and sell 10,000 units and uses cost-plus pricing with a 25% markup on total unit cost.

Select the selling price per unit.

a. $56.25

b. $37.50

c. $45.00

d. $55.00

Solution:

A. Correct. The total unit cost is calculated by adding the variable cost per unit to the allocated fixed cost per unit. Fixed cost per unit is $150,000 ÷ 10,000 units = $15. Total unit cost is $30 + $15 = $45. Applying a 25% markup on total unit cost gives a selling amount of $45 × 1.25 = $56.25 per unit.

B. Incorrect. This amount results from incorrectly applying the 25% markup only to the variable cost per unit ($30 x 1.25), leading to an insufficient selling price per unit.

C. Incorrect. This amount equals the total unit cost (variable cost of $30 plus fixed cost allocation of $15) without any markup, which ignores the 25% profit margin required under cost-plus pricing.

D. Incorrect. This amount reflects adding $25 to the variable cost per unit of $30.00, rather than applying a 25% markup on total unit cost, resulting in an understated selling amount.

Sample question 29

A mid-sized company is considering replacing its legacy accounting software with an enterprise resource planning (ERP) system that integrates finance, inventory, and human resources functions.

Select the primary advantage of implementing an ERP system.

a. It integrates data across business functions, improving information consistency and access.

b. It eliminates the need for financial audits by automating internal controls.

c. It replaces the budgeting process by providing real-time financial results.

d. It removes the need for management review of financial information by providing automated analytics.

Solution:

A. Correct. An ERP platform links information from different departments into a single database, which reduces data duplication and improves the reliability and availability of information for decision-making.

B. Incorrect. While ERP tools can support internal controls, they do not remove the requirement for independent financial audits, which often remain necessary for assurance and regulatory compliance.

C. Incorrect. Real-time reporting can inform budgeting, but it does not substitute for formal planning and budgeting processes, which are still required for setting targets and allocating resources.

D. Incorrect. Automated analytics can assist analysis, but management review and professional skepticism remain essential for interpreting results and making decisions.

Sample question 30

A company incurs the following costs to produce 1,000 units:

Cost Type	Amount ($)
Direct materials	15,000
Direct labour	10,000
Variable overhead	5,000
Fixed overhead	20,000

Select the variable cost per unit.

a. $30.00

b. $25.00

c. $50.00

d. $20.00

Solution:

A. Correct. Variable cost per unit is calculated by adding all variable costs and dividing by the number of units. Variable costs are direct materials $15,000, direct labour $10,000, and variable overhead $5,000, for a total of $30,000 resulting in a variable cost per unit of $30 ($30,000 ÷ 1,000).

B. Incorrect. $25 per unit arises from mistakenly excluding variable overhead from the calculation, leading to a total of $25,000 in variable costs divided by 1,000 units. This answer does not reflect the inclusion of all variable costs.

C. Incorrect. $50 per unit would be obtained by dividing the total cost of $50,000 (including fixed overhead) by 1,000 units. This answer combines fixed and variable costs and, therefore, does not represent the variable cost per unit.

D. Incorrect. $20 per unit arises from mistakenly excluding direct labour from the calculation, leading to a total of $20,000 in variable costs divided by 1,000 units. This answer does not reflect the inclusion of all variable costs.

Sample question 31

A company sells a product for $80 per unit. The variable cost per unit is $50 and total fixed costs are $90,000.

Select the break-even point in units.

a. 3,000 units

b. 1,800 units

c. 1,125 units

d. 692 units

Solution:

A. Correct. The break-even point in units is calculated by dividing total fixed costs by the contribution margin per unit. The contribution margin per unit is the selling price per unit minus the variable cost per unit, which is $30 ($80 - $50) in this case. Dividing fixed costs of $90,000 by $30 results in a break-even point of 3,000 units. This is the level of sales at which total revenue equals total costs and profit is zero.

B. Incorrect. This value arises from dividing $90,000 in fixed costs by the variable cost per unit of $50. It does not take into consideration the selling price per unit. With a contribution margin of $30 per unit, 1,800 units would cover only $54,000 of the $90,000 in fixed costs, leaving $36,000 of fixed costs unrecovered.

C. Incorrect. This value arises from dividing $90,000 in fixed costs by the selling price per unit of $80. It does not take into consideration the variable cost per unit. With a contribution margin of $30 per unit, 1,125 units would cover only $33,750 of the $90,000 in fixed costs, leaving $56,250 of fixed costs unrecovered.

D. Incorrect. This value arises from dividing $90,000 in fixed costs by the selling price plus variable cost per unit (i.e., $80 + $50 = $130). It does not take into consideration the variable cost per unit. With a contribution margin of $30 per unit, 692 units would cover only $20,760 of the $90,000 in fixed costs, leaving $69,240 of fixed costs unrecovered.

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Assurance and trust

Sample question 32

TechStar Inc. is a public company with an aim to "drive business solutions through technological innovation." It hopes to secure financing soon to launch a new project. A new audit firm has been engaged to complete the audit of the 2026 year-end financial statements.

Select the factor that increases the risk of material misstatement at the financial statement level.

a. TechStar Inc. is hoping to secure financing in the near future.

b. TechStar Inc. operates in the fast-moving technology sector.

c. The audit firm is new and may not be sufficiently familiar with TechStar Inc.

d. The new project may be consuming employees' time.

Solution:

A. Correct. TechStar may feel pressure to show strong financial results on its financial statements in order to secure financing. As a result, it may manipulate the financial statements.

B. Incorrect. The technology sector being fast moving may increase assertion-level risk (e.g., valuation of intangible assets) but on its own does not increase the risk of material misstatement at the financial statement level.

C. Incorrect. Being new to the engagement will necessitate additional work in order to become familiar, and may increase the risk that the auditor will detect errors present (hence the additional work to mitigate this risk), but it doesn't increase the risk that material misstatements already exist in the financial statements.

D. Incorrect. While a new project may indeed involve a time commitment, that does not mean this new project would increase the risk of material misstatement. Given the level of regulatory requirements a public company needs to follow, the employees in finance and accounting should be relatively sophisticated and unlikely to be affected by additional time commitments from a new project to the extent that risk of material misstatement would be impacted.

Sample question 33

An auditor has historically used a combined audit approach over the sales cycle for an existing client with a December year-end. During the current year, the client's sales volumes increased significantly when their products went viral online. As a result, the sales clerk fell behind in recording transactions. In October, management hired a temporary assistant for the sales clerk to perform data entry and get caught up before year-end. Sales cycle processing and approvals remain otherwise unchanged.

Select the most appropriate audit approach the auditor will plan for the current year, considering these circumstances.

a. Reassess the planned reliance on controls and perform additional testing of controls for periods affected by increased volume and staffing changes.

b. Continue with the prior year's combined approach and maintain the same level of control reliance, since the underlying processes have not changed.

c. Shift to a fully substantive approach for the fiscal year and eliminate testing of controls over the sales cycle due to the staffing change.

d. Focus primarily on substantive testing of revenue and receivables balances at year-end, since the staffing change occurred late in the year.

Solution:

A. Correct. The surge in sales volume and addition of a temporary assistant for data entry introduce heightened risk of errors and control breakdowns, particularly in transaction processing. The auditor should reassess control reliance, perform targeted control testing for the affected periods (including the new clerk's work), and increase substantive procedures where reliance cannot be supported. This reflects a risk-based combined approach.

B. Incorrect. Although the process may appear similar, the operating effectiveness of controls may have changed due to volume pressures and new personnel performing some data entry. Failing to reassess control reliance is inappropriate.

C. Incorrect. Moving to a fully substantive approach may be overly conservative and inefficient, especially for an existing client with historically effective controls. The appropriate response is reassessment, not abandonment.

D. Incorrect. Revenue is a throughout-the-year transaction stream, and risks arising from increased volume and staffing changes would not be addressed by focusing only on year-end balances.

Sample question 34

You are a CPA auditor reviewing internal controls over purchases, accounts payable, and cash disbursements at Granite Point Manufacturing Inc. You note the following:

- The purchasing manager creates purchase orders and also approves them, regardless of the dollar amount.
- Warehouse staff prepare receiving reports, and the accounts payable clerk matches these to purchase orders and supplier invoices before recording payables.
- The accounts payable clerk can add and change vendor master file information, prepares the payment run, prints cheques with a facsimile signature, and mails the cheques to suppliers.
- The accounts payable clerk prepares the monthly bank reconciliation, which no one else reviews.

Select the statement that correctly analyzes the effectiveness of these controls.

a. There are significant control weaknesses because key duties in the purchases and cash disbursements cycle are not properly segregated: The accounts payable clerk can create or change vendors, record payables, initiate and complete payments, and prepare unreconciled bank reconciliations, increasing the risk of unauthorized or fraudulent payments.

b. The controls appear effective overall because the accounts payable clerk performs a 3-way match of purchase orders, receiving reports, and supplier invoices before recording payables, which eliminates the risk of errors or fraud in cash disbursements.

c. The main issue is that the purchasing manager both creates and approves purchase orders, but the strong control provided by the accounts payable clerk handling all subsequent steps reduces the overall risk of misstatements.

d. The controls are acceptable because any weaknesses in segregation of duties are offset by the monthly bank reconciliation prepared by the accounts payable clerk, which ensures that all unauthorized payments would be detected.

Solution:

A. Correct. This statement properly analyzes the controls by identifying a major segregation-of-duties problem. The accounts payable clerk can set up or change vendors, record payables, initiate and complete payments, and prepare bank reconciliations that no one reviews. This concentration of duties allows the same person to create, pay, and conceal unauthorized or fraudulent payments, which is a significant control weakness.

B. Incorrect. A 3-way match is a good control, but it does not “eliminate” the risk of errors or fraud, especially when one person controls vendor setup, payment processing, and reconciliations. This option ignores the segregation-of-duties issues and overstates the effectiveness of the control.

C. Incorrect. This option correctly notes a problem with the purchasing manager creating and approving purchase orders, but it then treats the accounts payable clerk doing “all subsequent steps” as a strength. In reality, concentrating all those duties in one person increases risk and is a key weakness, not a mitigating factor.

D. Incorrect. Relying on a monthly bank reconciliation prepared by the same accounts payable clerk, with no independent review, does not compensate for poor segregation of duties. The person who could process an unauthorized payment is also in a position to hide it, so this reconciliation does not ensure detection of unauthorized payments.

Big data and data analytics

The learning outcomes for this competency are the same for both Knowledge Assessment and Foundational Development. See Knowledge Assessment for samples of questions.

Ethical decision-making and organizational governance/data governance

Sample question 35

Fair Ware Co., a publicly traded company, recently made a statement indicating that environmental stewardship is among its core values. Its board is considering how best to align this value with governance responsibilities.

Select the board action that best demonstrates genuine alignment between this stated value and the company's sustainability strategy.

a. The board integrates material environmental risks into its enterprise risk management oversight, discloses those risks in its Management Discussion & Analysis, and ties its strategic decisions to environmental stewardship.

b. The board delegates responsibility for environmental oversight to the company's sustainability function and approves the annual sustainability report before it is filed.

c. The board instructs management to adopt a voluntary set of sustainability reporting standards, such as the Global Reporting Initiative (GRI), and to report results on a regular basis.

d. The board sets a net-zero emissions target to be achieved within a period of 10 years.

Solution:

A. Correct. Aligning stated core values and governance responsibility means the board must actively oversee environmental risk as part of its enterprise risk management. Having consistency between stated values and strategic decision-making is a strong indicator of genuine governance alignment.

B. Incorrect. Delegating oversight to the sustainability team and limiting the board's role to passively approving the annual report is not sufficient to align core values with governance responsibility. The board retains a responsibility to oversee material risks, including those related to environmental stewardship.

C. Incorrect. While adopting a voluntary reporting framework, like GRI, and reporting on a regular basis is a best practice, on its own it will not be sufficient to satisfy the board's governance responsibilities. Adopting voluntary standards and reporting on them is only meaningful to the extent that the board engages with the reporting, monitors results, and seeks to improve on them.

D. Incorrect. Setting an emissions target does not necessarily fulfill the board's governance responsibilities, including its fiduciary or disclosure duties. The board needs to ensure that the target is material, it has considered the relevant sustainability risks and opportunities, it intends to monitor progress towards this target and engage in strategic decision-making that aligns with this target, and it links the target to the company's stated values.

Sample question 36

Select the response that best describes a sound data governance practice for a service organization that manages customer information across multiple business units.

a. Establish a formal data governance framework that defines clear ownership of customer information, standardized data definitions, documented access controls, and a centralized process for monitoring data quality across all departments that use customer data.

b. Allow each department to design its own informal rules for collecting and storing customer information as long as the department head verbally approves the approach and the data is stored in any convenient format.

c. Focus data governance only on the finance department, because financial reporting is the primary external output, and permit other departments to manage customer information independently without centralized oversight.

d. Store all customer information in a single shared database and allow only those in the IT department to update records, resolve conflicts, or make changes requested by different business units.

Solution:

A. Correct. This option reflects best practices by assigning responsibility, standardizing how customer data is defined and used, controlling access, and monitoring quality across the organization, which supports consistent and compliant use of customer information in all functions.

B. Incorrect. This option lacks formal governance, standardization, and documented controls, which increases the risk of inconsistent and unreliable customer data across the organization.

C. Incorrect. Limiting governance to finance ignores the fact that customer data is used across many functions, which undermines consistency, quality, and compliance in non-financial uses of customer information.

D. Incorrect. Centralizing updates in IT without business ownership or clear governance processes can create bottlenecks and does not address data definitions, quality standards, or shared accountability.

Sample question 37

A not-for-profit organization founded two years ago is experiencing rapid growth in programs and funding. Its board consists of 9 founding members, all of whom began at inception and are nearing the end of their initial 3-year terms. The board has no formal committees and continues to be heavily involved in operational decisions.

Select the most appropriate assessment of the board's effectiveness.

a. The board's structure and activities may limit effectiveness, because lack of renewal, absence of committees, and involvement in operations reduce its ability to provide independent oversight and strategic governance.

b. The board remains effective because founding members have the strongest understanding of the organization and are best positioned to continue guiding both strategy and operations.

c. The board's structure and activities are generally appropriate for a young, growing organization; however, the absence of committees may limit its ability to support continued program growth.

d. The board's effectiveness is generally appropriate at this stage, because its direct involvement in operations helps ensure programs are delivered effectively during a period of growth.

Solution:

A. Correct. An effective board should include renewal and independence, focus on oversight rather than operations, and use committees (e.g., governance, finance) to support its mandate.

B. Incorrect. This is incomplete, so it is less appropriate. While experience is valuable, lack of renewal and independence can reduce objectivity and governance effectiveness, especially as the organization grows.

C. Incorrect. This is not entirely complete. Committee structure is important, but issues also include board composition, independence, and role clarity.

D. Incorrect. This is inappropriate because it overemphasizes operational involvement. As an organization grows, its board should shift towards oversight and strategy rather than direct involvement in day-to-day operations.

Finance

Sample question 38

Clearwater Tech Inc. (CTI) is a profitable, growing company with a strong credit rating. It is seeking $50 million in long-term financing for capital expansion. The CFO's priorities are to minimize the cost of capital and preserve financial flexibility. CTI's current debt-to-equity ratio is 0.3, which is below the industry average of 0.8.

Select the source of financing that best meets the needs of CTI in this case.

a. Issuing long-term unsecured bonds

b. Issuing new common shares through a secondary public offering

c. Seeking venture capital financing

d. Obtaining a revolving line of credit

Solution:

A. Correct. This option allows a financially strong firm to raise large, fixed-rate, long-term funds at relatively low cost without diluting ownership, and it preserves flexibility by not pledging specific assets.

B. Incorrect. This raises permanent capital but increases the cost of equity, dilutes existing shareholders, and may not minimize the overall cost of capital.

C. Incorrect. Venture capital is typically used by early-stage or high-risk firms, often involves significant ownership dilution and control rights, and is not appropriate for an established, profitable issuer.

D. Incorrect. This option relates to working capital and is not a suitable instrument for funding long-term capital expansion.

Sample question 39

ABC Company is evaluating a new automated packaging system expected to reduce labour costs. Two years ago, it spent $220,000 on engineering studies and prototype testing specific to this system. If implemented, the project requires $900,000 in equipment and $120,000 in additional working capital, and it would eliminate an existing product generating $85,000 in annual contribution margin. The company would finance the project with a $1,000,000 bank loan carrying 7% in annual interest expense.

Select the amount that would be excluded from the incremental cash flow analysis for capital budgeting purposes.

a. The $220,000 engineering studies and prototype testing expenditure

b. The $120,000 in additional working capital

c. The $85,000 in lost contribution margin

d. The 7% interest expense

Solution:

A. Correct. Past development outlays are sunk costs and, therefore, excluded.

B. Incorrect. The increase in working capital is an increment cash flow impact for the project and, therefore, included.

C. Incorrect. The foregone contribution from a product that is only dropped if the project proceeds is an opportunity cost and, therefore, included.

D. Incorrect. Financing charges are reflected through the discount rate, which is part of the incremental cash flow analysis.

Sample question 40

PrairieTech Equipment Ltd. is a privately held manufacturer of agricultural equipment. The company is expanding into AI-enabled precision farming equipment, such as autonomous tractors, in response to increasing market demand. Management has prepared forecasts showing uneven and growing cash flows over the next five years, with higher upfront investment and improving margins. The company will continue as a going concern, and comparable transactions are limited in this emerging market.

Select the most appropriate method to value the business.

a. Discounted cash flow method, because it captures varying and growing cash flows and reflects uncertainty in an emerging market.

b. Capitalized cash flow method, because it applies a single rate to expected earnings and reflects ongoing operations.

c. Liquidation value method, because it provides a conservative estimate of the company's value based on asset disposal.

d. Market-based multiples method, because comparable transactions provide observable benchmarks for similar companies.

Solution:

A. Correct. Discounted cash flow method is appropriate when cash flows are uneven and expected to grow. It incorporates timing, risk, and changing performance.

B. Incorrect. Capitalization assumes stable cash flows, which is not appropriate given the variability and growth in this scenario.

C. Incorrect. Liquidation is not appropriate for a profitable going concern with no intention to cease operations.

D. Incorrect. This is reasonable but limited due to few comparable transactions and differing growth profiles in this emerging space.

Financial reporting

Sample question 41

Ridgecrest Logistics Inc. (RLI) prepares its financial statements using IFRS. RLI owns a delivery truck that originally cost $200,000, of which $40,000 was allocated to the engine component. As at January 1, accumulated depreciation of $28,000 had been recorded on the engine. On January 1, RLI replaced the engine at a cash cost of $47,000. The new engine is expected to extend the truck's useful life by 5 years.

Select the appropriate accounting treatment for the replacement of the engine.

a. Capitalize $47,000 as a new component, derecognize the old engine's carrying amount, and recognize a loss of $12,000.

b. Expense the $47,000 replacement cost as repairs and maintenance.

c. Add $47,000 to the carrying amount of the truck and make no further adjustments.

d. Capitalize the excess of cost of the new engine over the original engine and expense the remaining $40,000.

Solution:

A. Correct. IAS 16 Property, plant and equipment provides guidance on this issue. Per IAS 16.70,

   "[A]n entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately.

   Further, per IAS 16.71,

   "The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item."

   The old engine's carrying amount of $40,000 less $28,000 in accumulated depreciation results in a carrying amount of $12,000. Derecognizing the $12,000 carrying amount with no proceeds results in a $12,000 loss on disposal. The new engine ($47,000) is capitalized and depreciated over its new useful life.

B. Incorrect. The fact that the engine was previously capitalized and that the new engine will extend the truck's useful life by 5 years suggest that this is a capital expenditure. This answer incorrectly recommends expensing a capital expenditure.

C. Incorrect. This answer correctly capitalizes the cost of the new engine but fails to derecognize the replaced component.

D. Incorrect. IAS 16 does not support this treatment of the replaced component. This treatment results in an expense of $40,000, as opposed to the appropriate loss of $12,000 to be recorded on the old engine.

Sample question 42

On January 1, 2026, Rapid Power constructed a wind turbine with a cost of $5,000,000. The company is legally required to dismantle the turbine in 20 years. The estimated dismantling cost is $1,200,000. Rapid uses a 5% discount rate to evaluate such projects. In addition, the government requires an annual environmental monitoring fee equal to 1% of the turbine's cost, payable at the end of each year. Rapid Power reports under IFRS.

Select the amount of decommissioning liability that Rapid would recognize on January 1, 2026.

a. $452,267

b. $601,814

c. $2,365,715

d. $2,486,261

Solution:

A. Correct. IAS 37 Provisions, Contingent Liabilities and Contingent Assets notes,

"36 The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

"37 The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time[...]"

Therefore, the decommissioning liability equals the present value of the $1,200,000.00 dismantling outflow discounted at 5.00% over 20.00 years; the annual monitoring fees are period costs and are not included in the liability.

B. Incorrect. This amount overstates the liability by using a shorter discount period than 20 years, increasing the present value above the correct obligation.

C. Incorrect. This value approximates the present value of the dismantling cost plus an incorrect inclusion of some monitoring fees, which should not be capitalized as part of the decommissioning liability.

D. Incorrect. This amount reflects an overstatement from discounting the dismantling obligation at a rate lower than 5%, which inflates the present value of the future cash outflow.

Sample question 43

MapleTech is a Canadian company that uses Canadian dollars as its reporting currency. On December 1, 2026, MapleTech purchased equipment from a US supplier for USD $200,000, on credit. On that same date, MapleTech recognized sales to a US customer for USD $150,000, on credit. MapleTech also owns a piece of land in Germany that it purchased several years ago for 500,000 Euros. MapleTech reports under ASPE.

Relevant exchange rates:

Date	CAD/USD	CAD/Euro
December 1, 2026	1.30	--
December 31, 2026	1.25	1.58
Historical rate for land purchase	--	1.48

Select the amount in Canadian dollars that MapleTech would report on its December 31, 2026, year-end statement of financial position for the foreign currency assets.

a. $1,187,500
b. $1,227,500
c. $1,195,000
d. $1,000,000

Solution:

A. Correct. ASPE Section 1651 states that,

“.16 At each balance sheet date, monetary items denominated in a foreign currency shall be adjusted to reflect the exchange rate in effect at the balance sheet date.

“.18 At each balance sheet date, for non-monetary assets of the reporting enterprise that are carried at market, the Canadian dollar equivalent shall be determined by applying the exchange rate in effect at the balance sheet date to the foreign currency market price.”

Monetary assets (receivable USD 150,000.00) are translated at December 31, 2026 (150,000.00 × 1.25 = 187,500.00), non-monetary assets are measured at historical cost (land EUR 500,000.00; use the historical rate: 500,000.00 × 1.48 = 740,000.00), and equipment (USD 200,000.00) is a non-monetary asset measured at historical cost using the transaction-date rate

(200,000.00 × 1.30 = 260,000.00); total = 187,500.00 + 740,000.00 + 260,000.00 = $1,187,500.00.

B. Incorrect. This calculation uses the year-end FX rates for all assets, which is incorrect for non-monetary assets (equipment and land).

C. Incorrect. This calculation uses the spot rate on the date of the transaction for all assets, which is incorrect for monetary assets (A/R).

D. Incorrect. This calculation omits the inclusion of A/R, which is also an asset.

Sample question 44

Health Matters is a wellness studio specializing in red-light therapy treatments. For the year ending December 31, 2026, Health Matters has reassessed the expected useful life of its red-light therapy equipment, which was originally assessed as 10 years. However, due to improved maintenance and servicing, management now estimates the useful life to be 15 years beginning January 1, 2026.

Select the appropriate accounting treatment as of December 31, 2026, under ASPE.

a. Adjust amortization prospectively beginning January 1, 2026, based on the useful life of 15 years.

b. Continue amortizing the asset using 10-year useful life and disclose the intention to adopt the revised estimate in the subsequent year.

c. Restate the December 31, 2025, financial statements to reflect the revised useful life.

d. Continue amortizing the asset using 10-year useful life and disclose the impact of the revised useful life (15 years) in the notes to the financial statements.

Solution:

A. Correct. Under ASPE Section 1506, a change in useful life is a change in accounting estimate (paragraph 19). It also notes under paragraph 23, “The effect of a change in an accounting estimate, other than a change to which paragraph 1506.24 applies, shall be recognized prospectively by including it in net income in:

(a) the period of the change, if the change affects that period only; or

(b) the period of the change and future periods, if the change affects both.”

Therefore, the change in useful life is applied prospectively, so future amortization is recalculated based on the new duration from the next period.

B. Incorrect. A change in estimate is recognized prospectively in the change of change and future periods, if the change affects both.

C. Incorrect. A change in estimate is not applied retrospectively; prior periods are not restated under ASPE.

D. Incorrect. Disclosure alone is not sufficient; the revised estimate must be reflected in future amortization.

Sample question 45

Luscious Landscaping Inc. is a large company providing all the landscaping services Canadians could need. One of its divisions, operating as "Snowscapes," provides residential snow-clearing services in cities that experience sufficient snowfalls each year. It follows IFRS.

In an aggressive marketing scheme, after the first big snowfall each year, Snowscapes clears driveways of homes that haven't been shovelled by the residents yet. It then approaches the residents for payment for that individual service ($50), leaving an invoice in the mailbox if nobody is home. Snowscapes will also attempt to sell them on the full winter subscription.

Historically, residents will often pay for at least the initial snow-clearing out of a feeling of guilt or appreciation, since the work was already done; some will subscribe for the season.

Select the statement that reflects how revenue should be recorded.

a. Revenue should be recorded when payment is received because that is when the contract has been approved.

b. Revenue should be recorded when the driveway is cleared because the service has been performed. Uncollectible amounts will be accounted for as a bad debt expense.

c. Revenue should be recorded when the driveway is cleared because historically, most residents end up paying. Uncollectible amounts will be accounted for as a bad-debt expense.

d. Revenue should be recorded when payment is received because that is when the amount is known (individual or subscription-based).

Solution:

A. Correct. At the time of the service, a contract does not exist. Once the customer has agreed to pay (by doing so), they have approved the contract (and the service has already been performed).

   IFRS 15.9 states, "An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

   the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations."

   In this case, one of the parties has NOT approved the contract.

B. Incorrect. While the performance obligation has been satisfied, both parties have not agreed to the terms of the contract at this point, so revenue recognition requirements have not yet been met.

C. Incorrect. While the performance obligation has been satisfied, and the collectability may be probable for most of it, both parties have not agreed to the terms of the contract at this point, so revenue recognition requirements have not yet been met.

D. Incorrect. If the other requirements of IFRS 15 are met, there is no need to wait until the amount is officially known to record revenue. P50 states, “If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.” This is not the factor preventing recognition at the time of service.

Sample question 46

Harry's Hardware Ltd. (HH) follows ASPE. HH has just recently added a new, out-of-province supplier and incurred the following costs to obtain its first shipment of inventory:

Hardware inventory $145,000

Shipping $5,000

GST $7,500

To save on shipping costs, this order was larger than usual, and HH had to temporarily lease a storage pod for $1,000.

Select the amount that should be included in the cost of inventory for this transaction.

a. $150,000

b. $151,000

c. $157,500

d. $145,000

Solution:

A. Correct. $145,000 (purchase price) + $5,000 (shipping – i.e., transport)

Because hardware is a taxable supply, the GST paid on purchases would qualify for ITCs (thus recoverable) and would not be included.

This storage is not needed before a further production stage, since HH buys finished goods, so this cost should be excluded.

ASPE3031 Costs of purchase

.12 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

.17 Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:

(b) storage costs, unless those costs are necessary in the production process before a further production stage;

B. Incorrect. This response incorrectly includes the storage costs.

C. Incorrect. This response incorrectly includes the GST paid on purchases that would be recoverable.

D. Incorrect. This response incorrectly omits the shipping costs.

Sample question 47

PharmaFarm Co. follows IFRS and manufactures and sells pharmaceuticals. On July 1, 2025, the company began researching a new potential product. The company began the development phase (as defined by the criteria under IFRS) on October 31, 2025.

All costs related to the new product have been tracked as follows:

Description	**Date**	**Amount**
Market research study	February 3, 2025	$28,000
Researcher salaries	July 1, 2025 – December 31, 2025	$240,000
Raw materials	July 1, 2025	$35,000
Testing	September 1 – October 31, 2025	$100,000
Raw materials	November 8, 2025	$60,000
Testing	December 9, 2025	$90,000
Information pamphlet production	December 28, 2025	$15,000

Select the amount that should be capitalized to the internally developed intangible asset account.

a. $230,000

b. $245,000

c. $525,000

d. $553,000

Solution:

A. Correct. $240,000/6 x 2 months (Nov-Dec) = $80,000 + $60,000 raw materials + $90,000 testing = $230,000.

Costs incurred before the development phase criteria have been met must be expensed per IAS 38:

54 No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.

Once the development phase has been reached,

66 The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:

(a) costs of materials and services used or consumed in generating the intangible asset; RAW MATERIALS = OK

(b) costs of employee benefits (as defined in IAS 19) arising from the generation of the intangible asset; RESEARCHER SALARIES = OK

(c) fees to register a legal right; and

(d) amortisation of patents and licences that are used to generate the intangible asset.

IAS 38 specifies criteria for the recognition of interest as an element of the cost of an internally generated intangible asset.

67 The following are not components of the cost of an internally generated intangible asset:

(a) selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use; INFORMATION PAMPHLETS

(b) identified inefficiencies and initial operating losses incurred before the asset achieves planned performance; and

(c) expenditure on training staff to operate the asset.

B. Incorrect. This response includes all expenses after October 31 (including the information pamphlets, which is incorrect).

C. Incorrect. This response includes all lab-type expenses (everything except the market research study and the information pamphlets). It ignores that the development phase wasn't reached until October 31 and so incorrectly includes research costs incurred before that date.

D. Incorrect. This response recognizes that the information pamphlets are a selling cost that should be excluded, but it incorrectly includes the market research study and the research costs incurred before the development phase was reached.

Sample question 48

Atab has a machine (machine A) that has a carrying value of $100,000 and a fair market value of $130,000. Bata has a similar machine (machine B) that has a carrying value of $80,000 and a fair market value of $135,000. Atab and Bata, which are not related parties, agree to exchange the machines. Atab will receive machine B and will provide Bata with machine A and $5,000 in cash. Both machines are assets that produce similar products and will be used by each organization to produce goods for sale. Therefore, the estimated cash flows of each entity are not expected to change.

Select the statement that represents the entry Atab should make to record the transaction in accordance with ASPE.

a) Dr. Machine B $105,000; Cr. Machine A $100,000; and Cr. Cash $5,000

b) Dr. Machine B $135,000; Cr. Machine A $100,000; Cr. Cash $5,000; and Cr. Gain $30,000

c) Dr. Machine B $80,000; Dr. Loss $25,000; Cr. Machine A $100,000; Cr. Cash $5,000

d) Dr. Deferred Charge $5,000; and Cr. Cash $5,000

Solution:

A. Correct. ASPE 3831 – Non-monetary transactions, states:

.06 An entity shall measure an asset exchanged or transferred in a non-monetary transaction at the more reliably measurable of the fair value of the asset given up and the fair value of the asset received, unless:

(a) the transaction lacks commercial substance;

(b) the transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange;

(c) neither the fair value of the asset received nor the fair value of the asset given up is reliably measurable; or

(d) the transaction is a non-monetary non-reciprocal transfer to owners to which paragraph 3831.14 applies.

.07 An entity shall measure an asset exchanged or transferred in a non-monetary transaction that is not measured at fair value in accordance with paragraph 3831.06 at the carrying amount of the asset given up (after reduction, when appropriate, for impairment) adjusted by the fair value of any monetary consideration received or given.

.11 A non-monetary transaction has commercial substance when the entity's future cash flows are expected to change significantly as a result of the transaction. The entity's future cash flows are expected to change significantly when:

(a) the configuration of the future cash flows of the asset received differs significantly from the configuration of the cash flows of the asset given up (see paragraph 3831.12); or

(b) the entity-specific value of the asset received differs from the entity-specific value of the asset given up, and the difference is significant relative to the fair value of the assets exchanged.

In some cases, a qualitative assessment will be conclusive in determining that the estimated cash flows of the entity are expected to change significantly as a result of the transaction.

The transaction lacks commercial substance, since the configuration of the future cash flows of the asset received does not differ significantly from the configuration of the cash flows of the asset given up; both machines produce similar products, which will be sold.

Therefore, the transaction should be recorded at the carrying amount of the asset given up, or $100,000 equipment + $5,000 cash = $105,000.

B. Incorrect. This uses the fair market value of the asset received.

C. Incorrect. This uses the carrying value of the asset received.

D. Incorrect. This records only the monetary portion of the transaction.

Management decision-marking and information (data) systems/technology

Sample question 49

Buckets and Twigs Inc. (Buckets) is a hockey retailer that reported the following results last year:

Sales: $1,835,000

Cost of sales: $1,255,000

Buckets is considering a 4% price increase to offset rising administrative costs. Management estimates that demand is moderately price sensitive: A 4% increase in price is expected to reduce unit sales by approximately 2%. Alternatively, maintaining current prices is expected to increase sales volume by 5% due to higher minor hockey enrolment.

Management's objective is to maintain or improve gross margin while remaining competitive.

Select the most appropriate pricing strategy.

a. Implement the 4% price increase, because the expected decrease in volume is proportionally smaller than the increase in price, supporting higher overall gross margin.

b. Maintain current prices to maximize volume growth, because higher sales volume will have a greater impact on gross margin than pricing changes.

c. Maintain current prices, because the higher expected sales volume will generate greater total revenue than the price increase strategy, leading to a higher gross margin.

d. Decrease prices slightly to further increase volume, because higher turnover will reduce average cost per unit and improve gross margin.

Solution :

A. Correct.

Last year's gross margin = $1,835,000 − $1,255,000 = $580,000

Price increase 4%, volume decrease 2%: Net revenue = $1,835,000 × 1.04 × 0.98 = $1,870,232

Cost of goods sold decrease 2%: $1,255,000 × 0.98 = $1,229,900

Gross margin = $640,332

B. Incorrect.

Gross margin increases by approximately $29,000, which is less than under the price increase option.

Revenue increase 5%: $1,835,000 × 1.05 = $1,926,750

Cost of goods sold increase 5%: $1,255,000 × 1.05 = $1,317,750

Gross margin = $609,000

C. Incorrect.

This yields a lower gross margin than under the price increase option.

Revenue under this option = $1,926,750 vs. $1,870,232 under the price increase, so revenue is higher. However, cost of goods sold also increases proportionally: $1,317,750 vs. $1,229,900.

Resulting gross margin = $609,000 vs. $640,332 under the price increase.

D. Incorrect.

While not enough detail is provided for a full analysis, it is not more profitable than other options.

For example, if prices drop 2% and volume increases 5%:

Revenue: $1,835,000 × 0.98 × 1.05 = $1,888,215

Cost of goods sold increase 5%: $1,255,000 × 1.05 = $1,317,750

Gross margin = $570,465

Sample question 50

Skyline Outdoor Gear prepares its manufacturing overhead budget using a flexible-budget model supported by its IT cost-analytics system. The static budget for the premium backpack line was based on producing 30,000 units and included the following:

- Variable manufacturing overhead: $6 per unit
- Fixed manufacturing overhead: $420,000

During the year, the IT production-tracking system shows that actual output was 24,000 units. Using the flexible-budget approach, input the flexible-budget amount for total manufacturing overhead at the actual activity level.

Solution:

$564,000. The flexible-budget variable overhead = 24,000 units x $6 per unit = $144,000. The fixed manufacturing overhead of $420,000 remains unchanged. Therefore, the total manufacturing overhead is $420,000 + $144,000 = $564,000.

Sample question 51

NorthPeak Fitness Technologies has excess production capacity for its smart resistance-training wearable devices. A large fitness studio chain offers to purchase 4,000 units as a one-time special order. The normal selling price is $450 per unit.

The following cost information is also provided: variable manufacturing cost is $210 per unit; variable selling cost is $18 per unit; fixed manufacturing cost is $120 per unit. NorthPeak has sufficient idle capacity to fulfill the order and will reduce variable selling costs by 20% if it accepts the special order.

Select the minimum acceptable price per unit for the special order.

a. $224
b. $210
c. $226
d. $222

Solution:

A. Correct. The relevant costs related to the special order are variable manufacturing costs ($210) and variable selling costs reduced by 20% ($18 x 0.80 = $14.40). Fixed manufacturing costs are not relevant to this decision because the costs will be incurred whether or not the special order is accepted.

B. Incorrect. This includes only variable manufacturing cost and ignores the (reduced) variable selling cost that is still incurred.

C. Incorrect. This is the contribution margin of the regular-priced units using variable manufacturing costs and the discounted variable selling costs ($450 - $210 - $14.40 = $226 (rounded)). This is not the price per unit.

D. Incorrect. This is the contribution margin of the regular-priced units, not the price ($450 - $210 - $18 = $222).

Sample question 52

ClearPath Inc. is a growing consulting firm winning high-profile projects. Management aims to strengthen its talent pool while maintaining an efficient hiring process. The firm recently implemented an AI-based tool that analyzes video interviews (e.g., for communication style, tone, confidence) to screen and rank candidates, reducing hiring time by 30%.

However, several candidates with strong in-person performance and exceptional reference checks were screened out by the AI tool and later hired by competitors.

Select the most appropriate action to improve the effectiveness of the AI system.

a. Incorporate additional inputs, such as reference checks and structured interview evaluations, into the AI-supported decision process.

b. Introduce a policy requiring human review of all candidates rejected by the AI system before final decisions are made.

c. Increase reliance on AI rankings by refining video interview scoring criteria to improve consistency in candidate evaluation.

d. Retrain the AI model using historical hiring data, including successful employee performance outcomes, to improve its screening accuracy.

Solution:

A. Correct. This addresses the root issue—missing qualitative data—while preserving efficiency. It aligns with both hiring quality and process objectives.

B. Incorrect. This directly addresses missed candidates but adds significant manual effort and may reduce the efficiency gains achieved by the AI system. It improves outcomes but may not scale well.

C. Incorrect. This focuses on improving an already limited input and does not address the omission of important qualitative factors.

D. Incorrect. This enhances the model's predictive capability but may still fail to capture qualitative inputs like reference checks or in-person impressions unless those factors are explicitly incorporated into the process.

Sample question 53

The product line of Oakville Limited (Oakville) includes 3 different models of a special tool to shape metal pieces. The models are named Model A1, Model B2, and Model C3. There is considerable market demand for all models of the special tool. The following are the unit selling prices and unit manufacturing costs for the 3 models:

	A1	B2	C3
Selling price	$80	$70	$60
Direct materials cost	20	20	20
Direct labour cost	20	20	10
Variable overhead cost	10	5	5
Fixed overhead cost	20	10	30

The direct labour wage rate is $10 per hour. The variable overhead cost driver rate is $5 per machine hour.

Select the production option that represents the product or products Oakville should produce in the short term if machine capacity is a constraining factor.

a. B2 and/or C3
b. A1 and/or B2
c. A1 alone
d. B2 alone

Solution:

A. Correct. When there is a capacity constraint, the contribution margin (CM) per constraining factor should be maximized in order to produce the maximum profit. In this case, the limited resource is machine hours. Therefore, CM per machine hour is calculated for the 3 products as follows:

	A1	B2	C3
Selling price	$80	$70	$60
Variable costs	50	45	35
CM per unit	30	25	25
Machine hours	10/5=2	5/5=1	5/5=1
CM per machine hour	15	25	25

Since B2 and C3 have the same CM per machine hour, Oakville should produce either or both of these products in the short term.

B. Incorrect. A1 has a lower contribution margin per machine hour, so it should not be chosen.

C. Incorrect. A1 has a lower contribution margin per machine hour, so it should not be chosen.

D. Incorrect. C3 has the same CM per machine hour as B2 and, therefore, should also be considered.

Sample question 54

Burnaby Limited (Burnaby) builds boats and other watercraft vehicles. Burnaby currently manufactures the engines for the boats. The total cost of manufacturing 200 boat engines per year is as follows:

Direct materials	$ 300,000
Direct labour	200,000
Variable manufacturing overhead	100,000
Fixed manufacturing overhead	400,000
	$1,000,000

Kelowna Inc. has offered to sell 200 engines per year to Burnaby. If Burnaby accepts this offer, the facilities it uses to produce engines can be used to produce other products. This change would save Burnaby $50,000 in rent for the leased production facility used at present to support the production of other products.

Select the amount that represents the maximum price Burnaby should be willing to pay to Kelowna Inc. for each engine.

a. $3,250

b. $2,750

c. $3,000

d. $5,250

Solution:

A. Correct. Burnaby should be willing to pay an amount equal to the costs saved by not having to produce the engines, calculated as follows:

Variable costs of manufacturing:	
Direct materials	$300,000
Direct labour	200,000
Variable manufacturing overhead	100,000
Reduction in rent due to using own space	50,000
Total savings	$650,000
Engines produced	200
Savings per engine	$ 3,250

B. Incorrect. This option excludes the variable manufacturing overhead.

C. Incorrect. This option excludes the reduction in rent due to using Burnaby's own space.

D. Incorrect. This option includes fixed manufacturing overhead, which would not be saved by not producing the engines.

Sample question 55

Grand Forks Tourists Limited (Grand) mass produces souvenir stone carvings. Grand tracks and analyzes costs through a standard costing system. In the 3 months ending December 31, 2025, Grand purchased 150,000 kilograms of stone for $300,000 and used 120,000 kilograms. Grand's standard direct material cost to produce a carving is $3.50 per kilogram, with 2 kilograms per carving. Grand manufactured 65,000 carvings during the quarter.

Select Grand's direct material efficiency variance.

a. $35,000 favourable

b. $20,000 favourable

c. $60,000 favourable

d. $105,000 favourable

Solution:

A. Correct. Calculated as follows: (65,000 × 2 – 120,000) × $3.50 = $35,000 favourable

B. Incorrect. This option uses actual direct materials cost rather than the standard direct materials cost: (65,000 × 2 - 120,000) × ($300,000 ÷ 150,000) = $20,000 favourable

C. Incorrect. This option uses the remaining inventory of stone and the actual direct materials cost: (150,000 – 120,000) × ($300,000 ÷ 150,000) = $60,000 favourable

D. Incorrect. This option uses the remaining inventory of stone (150,000 – 120,000) × $3.50 = $105,000 favourable

Sample question 56

Soft Shoe Ltd. (SSL) produces 3 lines of soccer shoes, marketed under the names Marty, David, and Usan.

Marty is top of the line, and each pair sells for $150, with variable production costs of $120. SSL produces and sells 2,000 pairs each year.

SSL annually produces and sells 1,500 pairs of David at variable production costs of $30 per pair. The shoes sell for $100 per pair.

The Usan shoes sell for $200 per pair, with variable production costs of $150. SSL produces and sells 200 pairs of this line each year.

Select the average contribution margin for SSL.

a. 35.7%

b. 38.3%

c. 55.6%

d. 64.3%

Solution:

A. Correct. The average contribution margin for SSL is calculated as follows:

	Marty	David	Usan	Total
Revenue	300,000	150,000	40,000	490,000
Variable costs	240,000	45,000	30,000	315,000
Contribution margin	60,000	105,000	10,000	175,000
As a %	20%	70%	25%	35.7%

B. Incorrect. Calculated as a straight average of product contribution margin: (20% +70% + 25%) ÷ 3 = 38.3%.

C. Incorrect. Calculated as the gross margin as a percentage of cost of sales: $175,000 ÷ $315,000 = 55.6%.

D. Incorrect. Calculated as the cost of sales as a percentage of sales: $315,000 ÷ $490,000 = 64.3%.

Non-financial reporting

The learning outcomes for this competency are the same for both Knowledge Assessment and Foundational Development. See Knowledge Assessment for samples of questions.

Strategy, risk management, and innovation

Sample question 57

Pacific Stride Running is a startup in British Columbia that manufactures premium road running shoes using materials sourced from Canadian suppliers. Due to rising inflation and increasing costs, management is concerned about the impact on long-term profitability and sustainability of relying on local suppliers. You, a CPA, have been asked to advise on appropriate risk management responses to address this risk.

Select the action that is most appropriate to manage this risk.

a. Negotiating fixed-price agreements over the next 3 years with key Canadian suppliers

b. Increasing selling prices across all product lines to offset higher input costs

c. Sourcing international suppliers to reduce dependence on domestic cost pressures

d. Investing in equipment to improve production efficiency and offset rising input costs

Solution:

A. Correct. This action directly targets the identified risk by locking in prices with key domestic suppliers, reducing exposure to inflation and cost volatility while preserving the local sourcing strategy and supporting long-term planning.

B. Incorrect. Raising prices may help recover higher costs but does not manage the underlying risk of cost volatility from local suppliers and could negatively affect demand and competitive positioning.

C. Incorrect. Shifting to international suppliers changes the risk profile rather than manages the existing local supplier risk and may introduce foreign-exchange, political, and supply-chain risks.

D. Incorrect. Improving efficiency can mitigate overall cost pressure but does not specifically address the volatility of prices charged by local suppliers for key inputs.

Sample question 58

Bonesmatter Inc. was founded a decade ago to pool medical expertise. Its mandate is to service patients with bone disorders. The company now has 100 doctors on staff and over 10,000 patients. Because many of the treatments offered to patients involve cutting-edge medical technology that by definition has not had a history of results, litigation against the doctors and the company itself is substantially higher than average. The company deals with this risk by purchasing malpractice insurance. Unfortunately, due to the high levels of litigation, the insurance company is only willing to insure Bonesmatter Inc. up to a certain level. The company self-insures for claims above this level by establishing a pool of funds it can draw on to settle claims. The amount of the pool far exceeds the total of claims against it each year.

Select the ways Bonesmatter Inc. deals with the risk of malpractice. (Select two items)

a. Transference

b. Mitigation

c. Acceptance

d. Avoidance

Solution:

A. Correct. Since Bonesmatter Inc. purchases insurance, even though the insurance company will only insure up to the ceiling amount, a part of the risk has been transferred.

B. Correct. The amounts above the insurance limit will come from a self-insurance pool funded by the company itself, and if the company's losses exceed the pool, it is responsible for them.

C. Incorrect. The size of the company's pool of funds far exceeds the total of claims against it each year, suggesting that the risk has been fully transferred and mitigated.

D. Incorrect. The nature of the business is such that the risk of malpractice is evident and significant. The business model requires that this risk be accepted and dealt with.

Sample question 59

Core Process Manufacturing (CPM) is implementing a new enterprise resource planning (ERP) system. The implementation plan includes a detailed budget, a list of required software modules, and a go-live date set for 9 months from today. The plan also includes a training schedule that begins immediately. Metrics identified to evaluate implementation progress are projected improvements in gross margin and inventory turnover after the ERP system is live. Responsibilities for implementation are assigned to the IT department.

Select the assessment that best explains the effectiveness of CPM's implementation plan.

a. The plan is ineffective because training is scheduled too early and the metrics used do not measure implementation readiness or system adoption.

b. The plan is ineffective because the go-live date is too aggressive, even though the training schedule and metrics are appropriate.

c. The plan is ineffective because, although assigning responsibilities to the IT department is sufficient, the financial metrics chosen are too detailed for an ERP project.

d. The plan is ineffective because ERP projects should not include training or performance metrics until after the system is fully operational.

Solution:

A. Correct. This assessment captures the core weaknesses of the implementation plan: Training is scheduled prematurely, before users can meaningfully learn the configured system, and metrics are tied to financial outcomes, which do not measure implementation readiness, data quality, user competence, or system stability.

B. Incorrect. The timeline may be aggressive, but the scenario provides no evidence of this. The real issues are poor sequencing (training too early) and inappropriate metrics.

C. Incorrect. Assigning responsibilities only to IT is insufficient because ERP implementations require cross-functional ownership (finance, operations, supply chain). Also, the problem with the metrics is not that they are too detailed but that they are misaligned with implementation success.

D. Incorrect. ERP projects should include training and metrics, but they must be timed appropriately and aligned with implementation milestones, not deferred until after go-live.

Tax

Sample question 60

A Canadian-resident employee earned employment income of $78,000. The employer also provided the employee with the following:

- An award for 5 years of service with the company: $900
- Employer-provided parking at the downtown office: $2,400

In addition, the following information is provided for the employee:

- RRSP contributions in the year (RRSP limit based on prior year's Notice of Assessment is $10,000): $4,000
- Union dues: $850
- Childcare expenses: $3,600
- Life insurance premiums paid by the employee: $1,200
- Charitable donations: $500

The employee is married and is the higher-income spouse in the relationship. The employee's spouse is also employed.

Select the amount that represents the employee's net income for tax purposes.

a. $76,450

b. $71,150

c. $73,150

d. $72,350

Solution:

A. Correct. Both the award for years of service and employer-provided parking are taxable benefits and added to employment income. Therefore, total employment income is $78,000 + $900 + $2,400 = $81,300.

Deductions to net income for tax purposes include RRSP contributions and union dues.

Net income for tax purposes: $81,300 - $4,000 - $850 = $76,450

Childcare expenses are claimed by the lower-income spouse.

Life insurance premiums paid by the employee are neither taxable nor deductible.

Charitable donations are a non-refundable tax credit, not a deduction.

B. Incorrect. This calculation assumes that the childcare expenses, life insurance premiums, and charitable donations are deductible in their entirety from employment income.

C. Incorrect. This calculation does not include the taxable benefits of the award for years of service and paid parking by the employer.

D. Incorrect. This calculation assumes that the childcare expenses and charitable donations are deductible in the calculation of net income for tax purposes.

Sample question 61

Cybersecurity Consulting Ltd. had accounting net income before tax of $230,000 for its 2025 fiscal year end. Additional information is provided as follows:

1) Depreciation expense is $25,000, and the maximum capital cost allowance has already been calculated and is $20,000.

2) The accounting net income includes $2,000 of life insurance premium for the president, which is required as collateral for the bank loan.

3) A bonus expense of $10,000 was recorded and accrued for accounting purposes. It was paid one month after year-end.

Select the minimum business income for tax purposes for 2025.

a. $235,000

b. $237,000

c. $245,000

d. $247,000

Solution:

A. Correct.

Net income per FS	230,000
Add back:	
Depreciation	25,000
Deduct:	
CCA	(20,000)
Business income for tax purposes	235,000

Because the life insurance premium for the president is required for collateral, it is deductible for tax purposes. No adjustment is required. 20(1)(e.2)

Because the bonus was paid within 180 days after year-end, it is deductible for tax purposes in the year accrued. No adjustment required.

B. Incorrect. This response adds back the life insurance premium for the president.

C. Incorrect. This response adds back the bonus.

D. Incorrect. This response adds back both the life insurance premium for the president and the bonus.

Sample question 62

Veggie Mart Ltd. is a Canadian-controlled private company (CCPC). The following information is available for Veggie Mart Ltd. for its most recent (prior) tax year:

Active business income	$1,700,000
Adjusted aggregate investment income	$240,000
Taxable income	$1,940,000
Taxable capital	$5,800,000

Select the statement that is true for Veggie Mart Ltd.'s small business deduction dollar limit.

a. It will be reduced by only the adjusted aggregate investment income grind.
b. It will be the full dollar limit available as neither grind is in effect.
c. It will be reduced by both the adjusted aggregate investment income grind and the large corporation grind.
d. It will be reduced by only the large corporation grind.

Solution:

A. Correct. As the prior year adjusted aggregate investment income (AII) is greater than $50,000, this grind is in effect.

   The formula is as follows:

   (D/$500,000)[(5)(E - $50,000)], where

   - D = amount of the company's annual business limit for the year ($500,000 or less if shared with other companies)
   - E = total of all amounts, each of which is the adjusted AII of the company or any associated company for the preceding year

B. Incorrect. The prior-year adjusted AII of $240,000 is greater than the threshold for where the grind starts ($50,000).

C. Incorrect. While the AII grind is in effect, the large corporation grind only starts when the prior year taxable capital is greater than $10,000,000 (not the case here, as it is $5,800,000).

D. Incorrect. The large corporation grind only starts when the prior year taxable capital is greater than $10,000,000 (not the case here, as it is $5,800,000). In addition, it omits the adjusted AII grind, which is in effect given the prior year adjusted AII is greater than $50,000 (at $240,000).