CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

CPA Common Final Examination

BOARD OF EXAMINERS' REPORT

PART A — The Day 2 and Day 3 Report

September 2023 Examination

CPA EVALUATIONS

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See Part B for full Day 1 report on CanDo Fitness Ltd. simulations and marking guides.

THE BOARD OF EXAMINERS’ REPORT ON THE SEPTEMBER 2023 COMMON FINAL EXAMINATION

OBJECTIVES OF THE REPORT

The objective of this report is to explain the Common Final Examination (CFE) process and to assist the profession in improving the performance of candidates on the CFE.

The report sets out the responsibilities of the Board of Examiners, the methods used for guide setting and marking the CFE, and the results of the marking process. The report also includes recommendations to candidates from the Board of Examiners.

The September 2023 CFE Report is presented in two parts: Part A is the Day 2 and Day 3 report and Part B is the Day 1 report.

The appendices provide more detailed information on the design, guide setting, and marking of the CFE, as well as the board’s expectations of candidates on the simulations. Readers are cautioned that the marking guides were developed for the entry-level candidate and that, therefore, all the complexities of a real-life situation may not be fully reflected in the content. The CFE report is not an authoritative source of GAAP.

RESPONSIBILITIES OF THE BOARD OF EXAMINERS

The Board of Examiners (BOE or the board) comprises a chair, two vice-chairs, and sixteen members appointed by the provincial bodies.

The board’s responsibilities, as set out in its terms of reference, include the following:

- Setting the CFE in accordance with the *CPA Competency Map* (the *Map*) and other directions from the Professional Education Management Committee;
- Submitting the CFE and the marking guides to the provincial bodies for review;
- Marking the candidates’ responses and recommending to the provincial bodies the pass or fail standing that should be given to each candidate; and
- Reporting annually on the CFE to various CPA committees and the provincial bodies, in such form and detail and at such time as is satisfactory to them.

The chair is responsible for the supervision of the evaluation process. A CFE subcommittee, made up of nine members of the board, is actively involved in the preparation of the CFE simulations, the preliminary marking guides, and the setting of the initial passing profile. The members of that subcommittee participate in the Preliminary Evaluation Centre where the marking guides are tested against candidate responses and finalized, and in the start-up of the marking centre. The BOE chair and vice-chair provide oversight throughout the entire marking process, consulting with subcommittee members as required. The full board is responsible for equating the difficulty of the examination to prior years’ examinations and establishing the passing standard.

THE CFE

Preparation and Structure of the CFE

The board staff works in conjunction with authors to ensure that simulations presented to the board achieve the overall intent and design objectives set by the board, while adhering to the competencies and the proficiency levels specified in the *Map*.

The full board provides guidance as to the content and nature of simulations to be included on the examination. The CFE subcommittee reviews and refines these simulations that make up the three-paper evaluation set.

Nature of the Simulations

The CFE comprises a set of simulations that are both essential and effective in evaluating the candidates’ readiness to enter the profession:

Day 1 – The first paper is a four-hour examination consisting of a single simulation that is linked to the Capstone 1 group case. There are two versions of the linked cases, unless special circumstances require that a third version be provided. Version 1 is linked to the most current Capstone case and is written by first time writers and by repeat writers who chose to attempt the new case rather than Version 2 of the previous Capstone case. Version 2 (and Version 3, if applicable) is written by repeat writers and candidates who deferred and are writing Version 2 (and Version 3, if applicable) as their first attempt. The versions of the exams are calibrated to ensure the difficulty of all versions is comparable. For the September 2023 CFE, a Version 1 and a Version 2 were offered. The Version 2 case relates to CFL, for which a Version 1 was offered in September 2022.

Day 2 – The second paper is a five-hour case, with four different roles and requirements. Additional information tailored to each role is provided in four separate appendices.

Day 3 – The third paper is a four-hour paper, consisting of three multi-competency area simulations.

Assessment Opportunities

The board applies competency-based marking procedures that enable it to decide which candidates demonstrate readiness to enter the profession.

Assessment Opportunities are designed to answer the question, "What would a competent CPA do in these circumstances?" To attain a pass standing, candidates must address the issues in the simulations that are considered significant.

Appendix A contains a comprehensive description of the evaluation process.

Marking Guides

Marking centre leaders and assistant leaders provide valuable input during the testing and setting of the marking guides, before live marking begins. The vice-chair, selected member(s) of the CFE subcommittee and senior evaluations staff hold meetings with the leaders and their assistants during both the guide-setting and the marking processes. See **Appendix B** for the Day 1 simulations that appeared on the September 2023 CFE and **Appendix C and D** for the Day 2 and Day 3 simulations and marking guides. The marking results for Day 2 and Day 3, by Assessment Opportunity, appear in the statistical reports found in **Appendix E** of this report. See Part B of the CFE Report for details on Day 1, CanDo Fitness Ltd. Version 1 and Version 2.

Day 1 – The marking guide is designed to assess the candidate on the stages of the CPA Way: 1) situational analysis; 2) analysis of the major issues; 3) conclusions and advice; and 4) communication. Based on these four summative assessments, the candidate's response is then holistically judged to be either a passing or a failing response.

Day 2 and Day 3 – Marking guides are prepared for each simulation. Besides identifying the Assessment Opportunities, each marking guide includes carefully defined levels of performance to assist markers in evaluating a candidate's competence relative to the expectations set out by the board when developing the passing profile for a competent CPA.

Five categories of performance are given for each Assessment Opportunity. The candidate's performance must be ranked in one of the five categories:

- Not Addressed
- Nominal Competence
- Reaching Competence
- Competent
- Competent with Distinction

Setting the Passing Standard

The board chair and vice-chair in charge of the examination monitor the live marking. Near the completion of the marking process, the CFE subcommittee satisfies itself that the markers applied the marking guides as intended by the board.

In determining which candidates pass the CFE, a candidate is judged in relation to the board's pre-established expectations of an entry-level chartered professional accountant. Any changes to the initial profile that were made throughout guide-setting and the marking centre are ratified by the full board. In setting the passing profile, the board considers the following:

- The competency area requirements described in the *Map*
- The level of difficulty of each simulation (set using a scale: Easy, Easy to Average, Average, Average to Hard, or Hard)
- The level of difficulty of each Assessment Opportunity (set using a scale: Easy, Easy to Average, Average, Average to Hard, or Hard)
- The design and application of the marking guides
- Comments from leaders and assistant leaders regarding any marking difficulties encountered or any time constraints noted
- Possible ambiguity of wording or of translation
- Input on critical decision factors from an independent board (i.e., those BOE members not on the CFE subcommittee and therefore not directly involved) who review the fair pass package

The Decision Model

The purpose of the CFE is to assess whether candidates possess the competencies required of an entry-level CPA through a written evaluation that is common to all CPAs. Each day of the CFE is unique and is designed specifically to assess different skills:

- Day 1 is linked to the Capstone 1 group case work. It assesses the candidates' ability to demonstrate professional skills. It is independent from Day 2 and Day 3.

- Day 2 assesses technical **depth** in one of four unique roles (that reflect the four CPA elective choices) and provides **depth** and **breadth** test opportunities in the common core competency areas of Financial Reporting and/or Management Accounting. Candidates pre-select one role and respond from that role's perspective.

- Day 3 supplements the **depth** and **breadth** tests in the common core areas of Financial Reporting and/or Management Accounting, and also provides **breadth** test opportunities for all other common core competency areas.

Candidates must pass all three days in order to qualify for entry to the profession. Those seeking licensure must obtain depth in Financial Reporting and in the Assurance Role.

Day 1

Day 1 is assessed independently from Day 2 and Day 3. A pass or fail decision is made based on a holistic assessment of the candidates' performance in applying the CPA Way to demonstrate essential professional skills.

Day 2 and Day 3

The decision model used by the board is presented in Exhibit I. Four key decision points, or levels, are applied in reaching a pass or fail decision, as follows:

1. The response must be **sufficient**; i.e., the candidate must demonstrate competence in the Assessment Opportunities presented on Day 2 and Day 3 (Level 1).

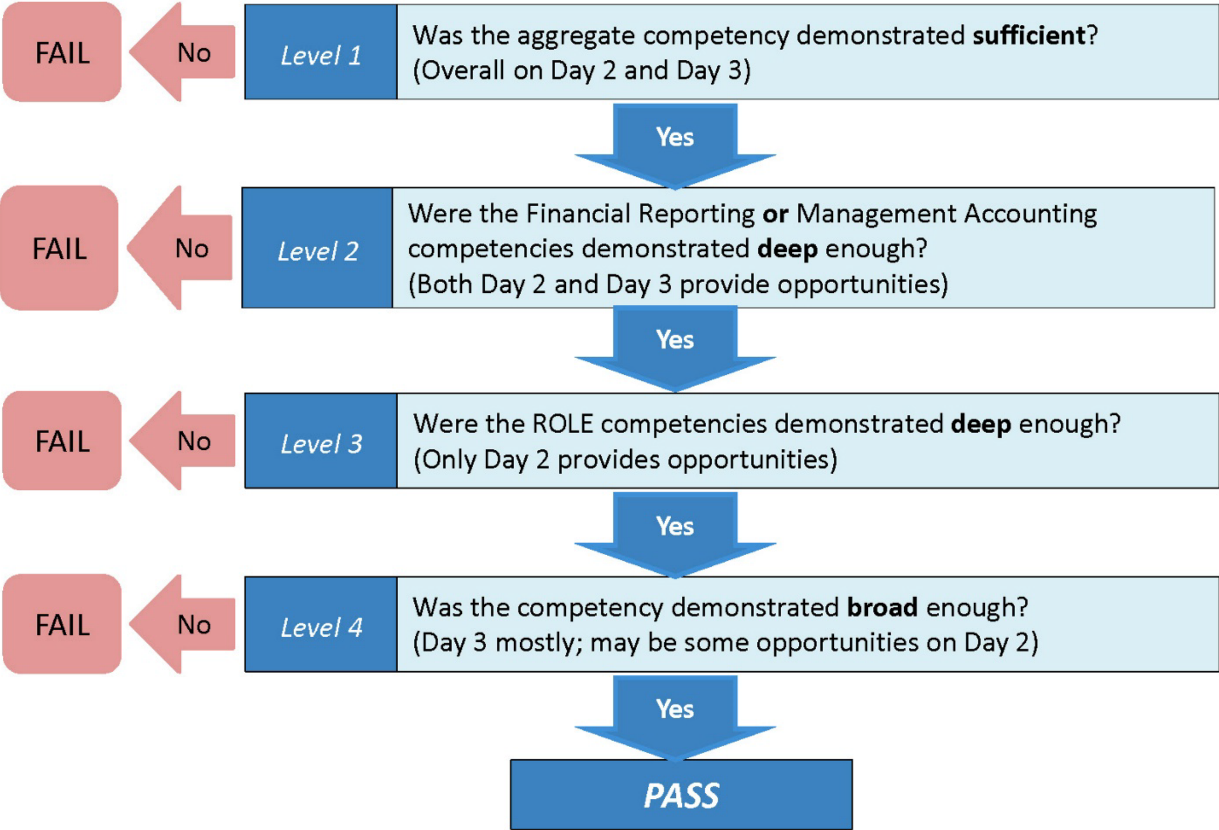
2. The response must demonstrate **depth** in the common core area of Financial Reporting or Management Accounting (Level 2).

3. The response must demonstrate **depth** in the pre-selected elective role (Level 3).

4. The response must demonstrate **breadth** across all competency areas of the *Map*, at a core level, by not having avoided a particular technical competency area (Level 4).

The BOE is responsible for equating the results from one examination to another to ensure that candidates have an equal chance of passing whichever examination they write. The BOE uses the factors listed above under setting the passing standard, in order to equate the examinations.

EXHIBIT I
DAY 2 AND DAY 3 PASS/FAIL ASSESSMENT MODEL



Approving the Results

The CFE subcommittee reviews and approves the marking results for each simulation. Day 1 is assessed separately from Day 2 and Day 3.

Day 1 – The CFE subcommittee discusses the profiles for both the marginally passing and marginally failing candidates to confirm that the board's pre-established passing profile has been appropriately applied by the markers.

Day 2 and Day 3 – As part of the development process, the CFE subcommittee sets preliminary requirements for the three levels (tests of depth and breadth) being assessed on the Day 2 and Day 3 simulations. After the marking is completed, the board reviews and finalizes those requirements. The board establishes the Level 1 (sufficiency) requirement for the combined Day 2 and Day 3 simulations.

During the approval process, the board continues to consider whether the results could be affected by any inconsistency in the evaluation or the board's processes.

Reporting

In reaching its decision, the board determines which candidates pass on a national basis only, without regard to provincial origin or language. Similarly, the detailed comments are based on analyses of the performance of all candidates.

The board reports the following information by candidate number:

- Overall pass/fail standing and pass/fail standing for each of Day 1 and of Day 2 and Day 3 combined.
- A pass/fail standing for Day 1.
- A pass/fail standing for Level 1, Sufficiency. A decile ranking is provided for failing candidates.
- A pass/fail standing for Level 2, Depth in Financial Reporting or Management Accounting.
- A pass/fail standing for Level 3, Depth in Role.
- A pass/fail standing for Level 4, Breadth in all technical competency areas.

Thank You

All board members wish to express their warm and sincere appreciation for the outstanding energy, support, and commitment of the Board of Examiners staff members whose dedication and talent contributed in large measure to the achievement of our objectives and the fulfilment of our responsibilities.

We also wish to acknowledge the contributions made by the provincial reviewers, markers, authors, translators, and editors. The commitment, energy, and skill demonstrated by all the markers were outstanding, resulting in the sound application of marking procedures and producing an appropriate evaluation of the candidates. Everyone's commitment to the quality and fairness of the process is appreciated.

Jonathan Vandal, CPA
Chair
Board of Examiners

A MESSAGE TO CANDIDATES

To attain a pass standing, candidates needed to achieve a "Pass" on Day 1, and on Day 2 and Day 3 combined, demonstrate sufficient competence in all areas and meet the two depth standards and the breadth standards.

Introduction

The September 2023 CFE Report, Part A and Part B combined, presents detailed information on all candidates' performance for all the examination cases, except for the Day 1 linked case, JRP Version 1. Detailed commentary on the performance of candidates on the JRP cases (Version 1 and Version 2) will only be available after JRP Version 2 is written in September 2024. The simulations, marking guides, marking results, and Board of Examiners' (BOE) comments on the Day 2/Day 3 portion of the examination are found in Part A of the CFE Report. Similar information on Day 1 CFL simulations (Version 1 and Version 2) can be found in Part B of the CFE Report.

The intent of this message from the BOE is to help candidates improve their performance on future CFEs by drawing their attention to the most common detracting characteristics observed in candidate responses to the September 2023 CFE. The BOE's comments are based on the feedback of the marking teams, who see the entire candidate population, and reflect the broad themes noted by the markers that apply to all candidates who wrote this sitting of the CFE. More detailed AO-by-AO commentary on candidates' performance can be found in the BOE's comments in Appendix F of Part A, or Appendix H of Part B, of the CFE Report.

Nature of the CFE

The design of the CFE is such that each day of the examination allows candidates to demonstrate a different skill set. Day 1 allows candidates to demonstrate their high-level professional skills, such as analysis that is relevant and critical to strategic decision-making, professional judgment, and ability to synthesize information. Day 2 allows candidates to demonstrate their technical competence in the common Financial Reporting and Management Accounting competencies and in their chosen role, which is tied to one of the four elective areas. Day 2 typically, but not always, directs candidates to the work to be done and is not designed to be time constrained, allowing candidates to demonstrate depth. Day 3 allows candidates to further demonstrate depth and breadth in the common Financial Reporting and Management Accounting competencies, and provides multiple opportunities to demonstrate breadth in all the other core technical competency areas. Day 3 is typically time constrained, requiring candidates to prioritize the issues and manage the amount of time spent on each issue.

Both Day 2 and Day 3 require candidates to integrate the information found in the simulation in order to demonstrate competence. All three days require candidates to clearly communicate their thought process.

Strengths and Weaknesses

Time management

Overall, candidates demonstrated good time management skills. The Day 1 simulation was not time constrained in any way and, generally, the amount of time that candidates devoted to their situational analysis and their issue analysis was appropriate. Most candidates were able to address all the strategic alternatives presented, spending more time on the alternatives that required more analysis and discussion. The Day 2 simulation was also not time constrained, and most candidates managed their time appropriately on Day 2, attempting all the AOs and appropriately balancing their time between the common section and the role section. On Day 3, which is designed to be time constrained and required time management on the part of the candidates, to ensure that all three simulations were completed within the four hours allotted, candidates seemed to be able to plan their time accordingly. There was some evidence of candidates running out of time, given the high average percentage of NAs (5%) on Day 3, Simulation 3; however, this is expected, given the design of Day 3.

Unrelated discussions

The BOE was pleased to see that there were relatively few unrelated discussions on this exam. Candidates addressed the requireds and generally did not provide any analysis that was not necessary.

Technical ability

The BOE has noted a trend of declining technical abilities. The pattern the BOE has seen for the past few CFEs has continued, with candidates generally avoiding the more complex topics. In addition, candidates struggled with most topics that had not been previously tested on the CFE, even though they are clearly testable, as outlined in the CPA Competency Map.

Candidates generally performed well on: Day 2, Assurance role, AO#9 (Procedures – accounting issues) and AO#12 (Procedures – compliance); Day 2, Finance role, AO#8 (Equipment NPV); Day 2, Performance Management role, AO#7 (Pea protein supplier), AO#8 (Just-in-time delivery), and AO#10 (Market survey analysis); Day 2, Taxation role, AO#7 (Capital cost allowance) and AO#9 (Taxable income); Day 3, Simulation 1, AO#2 (Federal corporate taxes payable), AO#4 (Understanding the audit plan), AO#5 (Solar power project options), and AO#6 (Appropriateness of vision, mission, and values); Day 3, Simulation 2, AO#1 (Grant and donation) and AO#5 (Cost allocation); and Day 3, Simulation 3, AO#4 (Governance structure and staff concerns). Many of these AOs contained topics that are regularly tested on the CFE.

However, on certain of the remaining AOs, there was more variability in the quality of the responses, with some candidates demonstrating a very poor understanding of the required technical knowledge.

On AOs requiring quantitative analysis, for example, on Day 2, Common, AO#1 (Inventory costing), many candidates did not incorporate the concept of equivalent units. On Day 2, Common, AO#3 (Variance analysis), candidates struggled to incorporate sales mix into their variance calculations. On Day 2, Performance Management role, AO#9 (Transfer pricing), many candidates either ignored the quantitative information provided in the case and attempted only a theoretical discussion of the potential transfer pricing methods, or attempted calculations using the data provided but failed to integrate them in their discussion of the potential methods, showing a poor understanding of the methods. On Day 3, Simulation 2, AO#3 (Financing options), and Day 3, Simulation 3, AO#1 (Upgrade options), candidates struggled to put the options provided to them on equal footing in order to compare them.

Candidates also demonstrated poor technical knowledge on some of the AOs that required Handbook or Tax Act knowledge. On Day 2, Common, AO#4 (Goodwill impairment), candidates struggled to correctly calculate the carrying value of the division and often did not know what to compare the carrying value to. On Day 2, Common, AO#5 (Note payable), many candidates did not recognize the main issue presented, which was the fact that the note payable contained a below-market interest rate and therefore needed to be adjusted to its fair value. On Day 2, Taxation role, AO#11 (Automobile benefits), many candidates used incorrect formulae to calculate the standby charge, and on AO#12 (Share sales), very few candidates identified that one of the transactions would result in an allowable business investment loss (ABIL). On Day 3, Simulation 3, AO#3 (CRA reassessment and acquisition of control), candidates were unable to provide the correct CRA reassessment time limit of three years, and demonstrated very little breadth of knowledge in explaining acquisition-of-control implications.

In addition, some candidates on this exam did not appear to use the reference schedule provided at the back of the exam booklet. For example, many candidates used the incorrect CCA class percentage on Day 2, Taxation role, AO#7 (Capital cost allowance), even though this information can be found in the reference schedule. In addition, on Day 2, Taxation role, AO#11 (Automobile benefits), candidates often used incorrect automobile rates (for lease limits and for calculating the operating cost benefit), or did not identify that the vehicle belonged to Class 10.1 even though it exceeded the limit for the year, and on AO#13 (Personal tax calculation), many candidates did not know how to use the personal tax brackets that were provided at the back of the exam booklet.

Candidates should expect to see a variety of issues of varying difficulty. The BOE encourages candidates to be balanced in studying, and to ensure that they have a sufficient level of technical knowledge in all competency areas that are outlined in the CPA Competency Map, as all topics in the Map are testable on the CFE. In addition, candidates should ensure that they are familiar with what is provided in the reference schedule on the exam, and ensure that the information is used when required.

Failure to consider the specific context of the simulations and integrate the information provided

Consistent with previous CFEs, candidates on the September 2023 exam seemed to struggle with applying the specific context of the simulation to their response. For example, on Day 2, Assurance role, AO#13 (Internal audit plan), many candidates provided an external audit planning memo, even though it was clear that the candidate was in the role of internal auditor. On Day 2, Finance role, AO#13 (Selling price (sell or hold)), candidates discussed the shareholder agreement but only did so generically, and did not tie the discussion to the specific scenario of Treadstone wanting to exit now. On Day 2, Performance Management role, AO#11 (Salespeople compensation plan), candidates often provided generic discussions about the theory of what is being tested, and did not incorporate any specific case facts in their discussions. On Day 2, Performance Management role, AO#13 (Treadstone's objectives and operational improvements), candidates often simply noted that the objectives were "met" or "not met," without explaining why and incorporating case facts. On Day 3, Simulation 2, AO#6 (Key performance indicators), many of the key performance indicators provided by candidates were generic or did not consider the not-for-profit context of the case.

The BOE emphasizes that the ability to adapt to unique scenarios and integrate information from various parts of the case are important skills for an entry-level CPA. In addition, the role of the CPA is often to advise clients, either on the application of standards and tax rules or on why, and how, to proceed with certain business and financial decisions. Without a clear explanation, a client would have incomplete information. In the case of responses to CFE simulations, the BOE is interested in understanding the logic used and is looking for evidence of the analysis and professional judgment that was applied in reaching a conclusion. Therefore, it is important for candidates to answer the questions “Why?” or “So what?,” using case facts when making any point, and to include the answer in the response. Jumping to the conclusion without first presenting the analysis supporting that conclusion is insufficient. The BOE is looking for a clearly articulated response.

Pre-populated financial information

On the September 2023 exam, any financial information presented in the case that had 10 lines or more was provided to candidates electronically in the exam-writing software. This was done for the first time in May 2023. Similar to May 2023, the BOE was pleased to see that many candidates took advantage of this and leveraged what was already provided, to save time and/or provide a more structured response. However, the BOE purposely included an AO on the exam with a bigger dataset (Day 2, Assurance role, AO#11 (Equipment subledger – anomalies and procedures)), and had expected candidates to use the exam-writing software to electronically perform data analysis on the information provided to them. Surprisingly, it appears that many candidates did not do this. The BOE reminds candidates that data analytics is an important part of the CPA Competency Map, and that the financial information is being pre-populated in order to allow candidates to perform data analysis in a more comprehensive and efficient manner.

For more detailed commentary, see Appendix F of Part A of the CFE Report.

Additional Comments Specific to Day 1 – JRP (Version 1)

Most candidates dedicated the first section of their response to a relevant situational analysis. Most used this information later in their response, making relevant links back to the company's global situation when analyzing the specific strategic issues that were presented, and within their conclusions. However, the links that weak candidates made were typically to the more obvious case facts that related to JRP's key success factors, mission, and vision, rather than being tied to the more important factors such as the downturn in the economy and the board's investment objectives.

Within the simulation, there had been a downturn in both the Canadian and global economies and, as a result, the board's main investment objectives had changed, and JRP's board would give preference to investments that provided JPR with the highest annualized return on investment (ROI), but they were also only comfortable with making low-risk investments. Internally, JRP only had $500,000 of cash available for strategic investment, and a potential loan of up to $7 million. Candidates were expected to integrate the critical elements of the company's broader situation, including the downturn in the economy, the board's objectives, and JRP's cash constraint, within their qualitative and quantitative analyses of each strategic alternative.

For each of the strategic alternatives available to JRP, candidates were expected to conclude and recommend a course of action that was consistent with their analyses. Within their conclusions, candidates were expected to discuss and integrate the board's main investment objectives, as well as respect the amount of capital the company had available for strategic investment.

There were five strategic alternatives to be analyzed in this case: whether to open two additional premium dog camps or sell BALA; whether to install a pet pharmacy within JRP's existing stores; whether to partner with Pet Fresh to create a premium pet box delivery service; whether to become the exclusive Canadian distributor of PPC's pet medicines and pharmaceuticals; and whether to offer an advanced dog training program, Training+.

Within the analysis of the major issues, three main factors differentiated strong responses from weak responses. First, a strong response identified and provided an in-depth discussion on the most important decision factors for each issue. Weak candidates tended to list case facts, often failing to explain why those elements were important and how they affected the decision-making process. Second, strong candidates provided valuable quantitative analyses to help support their recommendations (such as by linking their calculations to the stated objectives of JRP). On the other hand, weak candidates' quantitative analyses were often unstructured and unclear and, therefore, challenging to follow. Many weak candidates also failed to perform the correct calculation, to adequately assess each issue. These candidates often struggled to explain how the results of their quantitative analyses affected the decision at hand. Third, strong candidates routinely linked their analysis of each option to the prevalent entity-level issues presented in the case: the board's objectives; the impact of the economic downturn; and the cash constraint facing JRP. Strong candidates incorporated these aspects into their discussion of each strategic alternative, whereas weak candidates either missed making these links altogether or provided a superficial discussion that failed to adequately highlight the significance of these aspects in relation to each of the strategic decisions that needed to be made. Strong candidates also often recognized the inter-relationships between the strategic alternatives, such as the fact that the Training+ program was an inadvisable investment if the company decided to sell BALA.

Weak candidates tended to only perform an issue-by-issue analysis, without stepping back to consider the broader perspective, and without integrating the key entity-level issues into their conclusions. As a result, they failed to make important links between the various aspects of each alternative. For example, weak candidates attempted to calculate the ROI of each option but did not then compare them to each other, and so failed to adequately address one of the board's main investment objectives.

Most candidates approached their response in a coherent and organized fashion. Only a few candidates struggled to effectively communicate their ideas. These candidates tended to use poor sentence structure, confusing syntax, and an unorganized approach to their response.

Additional Comments Specific to Day 1 – CFL (Version 2)

Similar to JRP Version 1, most candidates dedicated the first section of their response to a relevant situational analysis. Most used this information later in their response, making relevant links back to the company's global situation when analyzing the specific strategic issues that were presented, and within their conclusions.

In addition to considering the board's objective of increasing and diversifying the company's sources of revenue, candidates should have also highlighted the major issue relative to CFL's internal environment within their situational analysis: the board's expressed intention to step back from the active involvement in CFL's day-to-day operations within roughly five years. As a result of this intention, CFL's board only wanted to make low-risk investments that were simple to operate and that provided a stable and reliable source of revenue. In addition, CFL only had $6.5 million of cash available for strategic investment, with no access to further financing. Candidates were expected to integrate these critical elements of the company's broader situation into their analysis of the major issues.

There were five strategic alternatives that candidates were expected to analyze both qualitatively and quantitatively: whether to acquire Iron Depot; whether to sign a hotel gym management contract with Sunnyside Hotels; whether to engage RiseEd to help create and distribute streaming fitness videos; whether to develop and operate physiotherapy clinics; and whether to open additional PurCafés.

Similar to JRP Version 1, strong candidates recognized and discussed the most important decision factors for each issue, provided valuable quantitative analyses, and linked their analysis to the significant entity-level issues presented in the case. Strong candidates tended to incorporate the assessment of whether the alternatives were low-risk and simple to operate throughout each of their issue-by-issue discussions, and within their conclusions and overall recommendations. Strong candidates also recognized that there were interrelationships between the investment recommendations they made and CFL's existing and potential future operations. For example, strong candidates recognized that Iron Depot had supplier contracts that would allow CFL to purchase equipment for the company's existing fitness facilities at a 20% discount.

One of the main differentiating factors between strong and weak candidates was the ability to identify and discuss in depth the most relevant aspects of each strategic alternative presented as part of their analysis. Rather than discuss the more pertinent implications, weak candidates' analyses tended to focus on the minor considerations. For example, for the PurCafé alternative, weak candidates tended to focus their analysis on the alignment between offering healthy food and the company's mission, vision, and core values, instead of the fact that it is low-risk because there were already PurCafés that were operating and profitable. Weak candidates also often did not step back and consider the entity-level issues within their analysis of the strategic alternatives.

As was the case with JRP Version 1, only a few candidates struggled to effectively communicate their ideas. These candidates tended to use poor sentence structure, confusing syntax, and an unorganized approach to their response.

APPENDIX A

EXAMINATION DESIGN, MARKING GUIDE DEVELOPMENT, AND MARKING OF THE COMMON FINAL EXAMINATION

CFE Design

Day 1 is one four-hour case that is linked to the Capstone 1 case, which is worked on in groups for eight weeks prior to the CFE. When writing the Day 1 case, candidates are allowed access to their Capstone 1 case but not their group's answer or any sample response. The Day 1 case is designed to assess the enabling (professional) skills. Candidates are directed to target a "board room and senior management" level of discussion, with high-level analytics and a strategic focus. There are typically two versions of the Day 1 case. Candidates pre-select the version they will write.

Day 2 is one case designed to be completed by an average candidate in three and one half hours that candidates are given five hours to respond. The extra one and one half hour gives candidates time to filter and find the information that they need to answer *their* role requirements from within the common information presented. Day 2 is designed to assess the technical competencies in **depth** (Level 2 and Level 3). Candidates pre-select a role (Assurance, Finance, Performance Management, or Taxation). All candidates work with the same case — it has a common section and four sets of appendices containing additional information applicable to each of the four unique roles. The required tasks, regardless of the role, are clearly directed unless there is an undirected/enabling issue in the case that the board expects candidates to identify on their own. Day 2 evaluates the competencies listed in the *CPA Competency Map* mostly in the elective area and in common Financial Reporting and/or Management Accounting areas in **depth** and **breadth**. The role **depth** test (Level 2) may also include coverage of other competency areas from the common core.

Day 3 is a four-hour examination containing a mix of small cases (75 to 85 minutes each[1]) that evaluate the common core competencies only. The Day 3 cases provide additional opportunities for **depth** and **breadth** in Financial Reporting and Management Accounting and provide **breadth** opportunities for all the other technical competency areas. Cases are time constrained, and they are designed to cover different competency areas within each case. A higher level of integration and judgment is required on Day 3 of the CFE than in the core modules, although the technical competencies are tested at the common core level of expectation.

The assessment opportunities on the Day 2 case are given mark values such that each of Day 2 and Day 3 are weighted equally.

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[1] The CFE Blueprint allows anywhere between 45 to 90 minutes. The September 2023 CFE ranged from 75 to 85 minutes.

The Development of Marking Guides and the Provincial Review Centre

Prior to the Common Final Examination being published, provincial reviewers, appointed by each region, meet to examine the simulations and the preliminary marking guides. The provincial reviewers' comments are then considered by the board when it finalizes the examination set and again when the leaders and assistant leaders review the marking guides in the context of actual responses at the Preliminary Evaluation Centre.

The September 2023 CFE Evaluation Centre

The September 2023 CFE Evaluation Centre was run with both in-person and remote components. From the marker applications received, approximately 210 individuals were chosen to participate in the September 2023 CFE marking centre. The criteria for selection included marking experience, motivation, academic achievement, work experience, personal references, and regional representation. The marking was supervised by the CPA Canada CFE full-time CFE professional staff, with oversight by the CFE subcommittee vice-chair, and the chair of the BOE.

The Day 1 Version 1 linked case (JRP V1) was marked by a team of 26 people from October 5 to 20, 2023. The Day 1 Version 2 linked case (CFL V2) was marked by a team of six people from September 21 to 28, 2023.

The Day 2 Common assessment opportunities were marked separately from the role assessment opportunities by a team of 36 people from October 1 to 15, 2023. Day 2 Assurance was marked by a team of 39 people from October 1 to 17, 2023. Day 2 Performance Management was marked by a team of 14 people from October 2 to 14, 2023. Day 2 Finance was marked by a team of four people from September 19 to 25, 2023. Day 2 Taxation was marked by a team of three people from September 20 to 26, 2023. All three Day 3 cases were marked from October 5 to 21, 2023. The Day 3 simulations were marked by a total of 82 people.

In advance of the marking centre, the members of the CFE subcommittee, staff, leaders, and assistant leaders participated in a three- to six-day preliminary evaluation centre (PEC). Participants reviewed the marking guides, applied them to randomly selected candidate responses, and made necessary revisions to the marking guidelines, taking into account the comments on the marking guides received from provincial reviewers.

The larger teams followed a set marking centre schedule, which included a start-up phase to train the markers. During the start-up phase, the leaders and assistant leaders presented the marking guides to their teams, while staff and the BOE vice-chair monitored the discussions. The teams undertook a two-phase test-marking procedure prior to actual marking. Phase one consisted of marking guide familiarization, during which markers applied the marking guide to copies of candidates' responses and collectively reviewed their results. Phase one thus ensured that all markers understood the issues in the marking guide and the basis on which to apply each expectation level. Phase two consisted of an expanded test marking of several responses to establish marker congruence.

After the training and test-marking phases, and only when marker congruence was achieved, live marking commenced. All larger teams had a leader, and anywhere from one to five assistant leaders, and had both French-speaking and English-speaking markers. Each team had one or more markers who marked in both languages.

For smaller teams, all markers attended PEC, and moved directly from PEC to live marking. These teams had a leader, and two to five experienced markers, of which two were bilingual and marked all the French papers. These bilingual markers started in English and switched to marking in French once their marking was assessed as being consistent with the team. The bilingual markers arbitrated the French papers by discussing where there were differences in their markings. If they were unable to agree on a final assessment, the bilingual markers translated the relevant portions of the response for the team leader, and the team leader made the final assessment.

The board strives for the highest possible marking consistency and quality control. Leaders and assistant leaders, therefore, devoted much of their time to cross-marking and other monitoring activities. Control papers were fed into the system daily to check marker consistency. Markers' statistics were reviewed to ensure that marking remained consistent throughout the centre. Based on analysis of the statistics, leaders reviewed and, if necessary, re-marked papers to ensure that the assessment opportunities were marked fairly for all candidates. Bilingual markers marked papers in both languages, and their results were compared to ensure that the marking was consistent in both languages. Additional audits were performed at the end of marking on any of the larger differences between markers.

Borderline Marking (Day 1)

Each candidate's paper was marked once. All candidates' responses that were assessed as clear fail, marginal fail, or marginal pass were marked a second time by the team leader, an assistant team leader or a senior marker. Clear pass results were also audited to ensure accuracy of marking.

Double Marking (Day 2)

Each candidate's Day 2 paper was marked independently by two different markers. If the two initial markings differed on any assessment opportunity, an arbitrator (the leader, an assistant leader, or a senior marker) compared the two initial markings and determined the final assessment.

As an added measure to ensure that markers were consistently applying the marking guide, a two-day rule exists, which results in the second round of marking not beginning until two days have elapsed since the first marking. Adherence to this rule ensures that any movement in the application of the marking guides due to marker interpretations during the first two days of live marking are stabilized before the second marking and arbitration process begin.

Borderline Marking (Day 3)

Day 3 was marked using a borderline model. All Day 3 responses were marked once, and then the Day 2 and Day 3 results were combined. All failing candidates who passed the Day 2 role test, had their Day 3 response marked a second time by an independent marker, and any differences between the first and second markings were arbitrated by a leader or senior marker.

Subsequent Request for Remark of Results and Request for Performance Analysis

Failing candidates may request a remark of their examination results and/or a detailed, personalized performance analysis for either Day 1, or Day 2 and Day 3 combined, or for all three days for a fee.

Applications must be forwarded to the Board of Examiners through the provincial bodies. If a candidate wishes to apply for a remark of their results and/or a detailed performance analysis, they should notify their respective provincial bodies within the specified time limit indicated in the results letter.

In an effort to provide failing candidates with more timely feedback, the Board of Examiners is providing an automated feedback report for Day 1 of the CFE. The report is automatically generated using the marking data collected for each response rather than being based on a personalized review of the response and is being provided at no cost to all failing candidates. This report is intended to allow for the identification of the key deficiencies in the candidate's Day 1 response, which then allows the candidate to decide whether to request the more detailed, and personalized performance analysis report noted above, for a fee.

Remarking of Results Approach

Great care is exercised in the original marking and tabulating of the papers and results. The following procedures are applied to all three papers constituting the Common Final Examination.

Under the supervision of the chair of the Board of Examiners and of CPA Canada CFE staff, the responses are reviewed by the leaders and assistant leaders who did the original marking. The leaders and assistant leaders read the responses and compare them to the marking guides used at the marking centre. In reviewing candidates' results, two aspects are considered. First, it must be determined that the basis of marking the papers has been consistent with that accorded other candidates who wrote the examination. Second, all responses reviewed are subjected to a careful check to ensure that the markers have indicated that consideration has been given to all material submitted by the candidate.

The results are tabulated and a decision made as to whether any candidates have been treated unfairly and should be granted a pass on the examination.

The results are then forwarded to the provincial bodies for notification of the candidates.

APPENDIX B

SEPTEMBER 12, 2023 – DAY 1 SIMULATIONS

COMMON FINAL EXAMINATION
SEPTEMBER 12, 2023 – DAY 1

Case (JRP-Version 1) **(Suggested time: 240 minutes)**

It is July 23, 2025, and you, CPA, are still working at Quinton and Sparks Consulting LLP (QSC). J.R. Pets Inc. (JRP) has again engaged QSC to assist with its strategic analysis and planning.

In 2023, JRP moved forward with the option to invest in the deluxe dog camp, Bonheur des Animaux au Lac Agathe Camp (BALA). JRP did not move forward with any of the other potential strategic investments that were considered during 2023. Also, the store manager who exploited JRP's required training reimbursement program was let go, and the manufacturers who were impacted by this fraud were made aware of what had occurred. Since then, JRP has increased the level of documentation required before managers and employees are reimbursed for the training programs they report as being complete.

After a prolonged period of growth, both the Canadian and global economies began to decline in early 2025. Given a historically high inflation rate, central banks around the world have begun to increase interest rates. As a result, the disposable income of Canadians has declined and so has consumer spending.

Since 2023, JRP has not changed its mission, vision, or core values.

At the last board meeting, JRP's directors agreed that, for any future investments, preference will be given to those that provide JRP with the highest annualized return on investment (ROI). However, all four JRP board members remain risk averse, and would therefore like to ensure as much as possible the reliability of the return earned from any future strategic investments JRP makes.

For any new strategic investments, JRP currently has $500,000 of investment capital available. Also, a reputable bank has offered to provide JRP with a term loan of up to $7 million. The potential loan's term is 10 years and it has an interest rate of prime plus 3%. Principal and interest payments are payable monthly until the loan matures.

JRP's board has asked you, CPA, to review the information that has been provided and draft a report in which you analyze and make a recommendation for each proposal presented. The board would also like you to comment on JRP's overall strategic direction and on how each proposal could influence that direction. For this engagement, please ignore any tax implications within your analysis and recommendations.

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APPENDIX I
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Julia: Thank you, CPA, for coming today.

As you all know, JRP is at a critical point in its development. Prior to this year, the growth of our pet shops was already stagnant, and now with the recent economic downturn, our profit margins have declined as many of our customers have moved away from purchasing high-priced specialty products and services.

Elaine: That's right, Julia. The downturn in the economy has made everyone more cautious with their spending—especially on products they deem nonessential. The next several years could be tough for business. We simply don't know how long this downturn will last, so we need to be cautious when making investments. The lower the risk, the better.

Steve: It will be a challenge, but I am confident that with the right decisions, we can help protect JRP and ensure that the company thrives well into the future. On that note, our investment in BALA has been a huge success so far. Last year, during its first full year of operations, BALA surpassed our initial performance expectation.

Gord and Irene's contributions have been instrumental to BALA's early success. I don't think we could have managed without them. Gord recently asked whether he could speak with the board. He's here today to discuss a new investment opportunity with us.

Richard: Excellent. Send him in.

Gord joins the meeting.

Julia: Welcome, Gord. First off, thanks for your hard work at BALA. You've both made us proud!

Gord: You're very welcome, Julia. Honestly, it is both Irene's and my pleasure. We love operating BALA. It's been incredible so far.

I want to propose to the board that JRP open two additional premium dog camps. After the early success of BALA, it makes sense to expand now and get a foothold in two new markets before our competitors do. I have identified properties that would be ideal for BALA-type dog camps: one in Ontario and the other in Nova Scotia.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Elaine: As the “humanization of pets” trend continues, demand for BALA’s premium boarding service has been driven by pet parents who want the best for their pets. As well, the number of pet owners continues to increase, and this could help drive demand even higher.

Richard: I like the idea of opening new dog camps in Ontario and Nova Scotia, since BALA’s location in Quebec has helped build JRP’s brand in that province.

Julia: There is no doubt that BALA has been a success, but this expansion might be premature. BALA has only been open for a little over a year and a half. Plus, the expansion will force Gord to divide his attention between all three dog camps.

Gord, have the luxury grooming and spa treatment rooms opened at BALA yet?

Gord: Unfortunately, no. But we’re getting closer. Irene and I felt it was important to solidify the camp’s base operations before we turned our attention to the grooming and treatment rooms.

Elaine: Gord, I also understand that Irene has made quite a name for herself as a pet trainer. We have received rave reviews from BALA’s customers about Irene’s training tips.

Gord: Irene has a gift for dog training. In fact, we should consider selling training courses since there is clearly a demand for it. I have left some information with Elaine about this additional opportunity.

Finally, I wanted to mention that the expansion of JRP’s dog camps is very important to me and Irene. Although we both love operating BALA, we want a greater challenge. If JRP’s board chooses not to expand the dog camp operation, I have found another company that Irene and I will go and work with. This company has also offered to buy BALA from JRP for $6 million.

Julia: Okay, Gord. Thanks for the information. We will speak with you soon.

Gord leaves the meeting.

Steve: The success of BALA or any future expansion depends on Gord and Irene. And so, we will either need to sell it or agree to expand into Nova Scotia and Ontario.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Elaine: I agree, Steve. I also think it's important to point out that BALA's occupancy rate is lower this year than it was at the same time last year. Plus, we have begun to receive comments from customers that our fees are too high, and because of that, they may not return to use BALA's services again.

Julia: Okay, next up, a veterinarian friend of mine suggested that we install a pet pharmacy at each of our current JRP stores. In addition to offering pet medicine products, each pharmacy would be staffed by a certified pet pharmacist who would not only prescribe pharmaceutical products but also provide advice, and even perform basic medical checkups and preventive care procedures. Offering this type of service directly in our stores will give JRP a competitive advantage.

Steve: It's an interesting idea, but I worry about the risks. What if a pet gets sick because one of our pharmacists provided poor care or an improper medicine? Not only could this hurt our reputation, but we could potentially be held liable.

Richard: While that is a real concern, we could get insurance to protect ourselves, so I think it's a great idea. Pet owners care deeply about the health of their pets, so this type of service should provide a steady source of revenue—the same thing can't be said for luxury services or products. People become more cautious with spending when their disposable income drops.

Steve: By offering this service, JRP would enter a new regulatory environment. This would complicate our operations and potentially increase costs. Plus, more regulations are bound to be issued.

Julia: You're not wrong, Steve. If we move forward with this proposal, we will need to be careful. However, with our experience, I'm confident that our pharmacies will be able to provide goods and services of high quality that meet all industry standards. JRP has never had a problem with meeting regulations in the past. My veterinarian friend even mentioned that she could help us find and hire our first few certified pet pharmacists.

Richard: Okay, moving on, I want to discuss another investment opportunity. Pet Fresh is an up-and-coming German company that offers a subscription-based service so that pet owners can have premium pet product boxes delivered directly to their homes. Pet Fresh is seeking a partnership with JRP that would allow them to expand their operations into Canada.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Elaine: If these pet product boxes contain food products, I'm concerned. It will be a challenge to ensure that the food stays fresh during shipping. We would need to ensure that Pet Fresh adheres to JRP's strict quality requirements.

Richard: The boxes do contain food products. In fact, customers can choose from a range of food, treats, and toy options. Each box is different from the last, so the pet gets a variety of healthy food, and because this is an exclusive offering, each box contains only the best, most luxurious products. Despite the additional expense, Pet Fresh's German customers love the convenience of not having to make regular visits to the pet store.

One of the best parts of the proposed partnership is that Pet Fresh will take care of all the operational considerations. Once we make the upfront investment, Pet Fresh will be responsible for product sourcing and the assembly and shipment of the boxes. Another great aspect of Pet Fresh's proposal is their willingness to use JRP's name as the brand on the boxes. This could help JRP gain national exposure!

Julia: We could propose this new service directly to JRP's past and present customers using our customer database.

Richard: Exactly, and we could also advertise this service in our existing JRP stores.

Julia: This partnership is worth looking into.

Elaine: Maybe, but it wouldn't take many incidents before customers lost trust in the safety of our products.

Steve: Our next opportunity came available when PetPharma Co. (PPC), an American pet pharmaceutical developer and manufacturer, contacted me about JRP becoming PPC's exclusive Canadian distributor. PPC has never sold their products in Canada before.

Elaine: Once again, I am concerned about regulation because American standards are different from Canadian standards, and because the pet industry faces increasing regulation. What do we know about PPC?

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Steve: The company is two years old. My preliminary research shows they have become a trusted brand that provides high-quality pet medicines and other pharmaceutical products. Once PPC's products get approved for sale in Canada, I expect our revenue stream from the distribution agreement to steadily grow over time.

Becoming PPC's distributor would allow JRP to build relationships with veterinarians across Canada. Plus, because we would be the exclusive distributor, anyone who wanted PPC products in Canada would need to buy through JRP.

Richard: JRP has never been a distributor before. We know nothing about the logistics involved.

Steve: From what I can tell, it's a straightforward process. First, we would need to lease a warehouse to receive PPC's products. From there, we would ship orders directly to veterinarians and pet pharmacies anywhere in Canada. The staffing requirement would be minimal. Plus, as PPC's distributor, JRP could purchase its products at a discount. We would save about 5% over the best price that we have found for similar pet medicine and pharmaceutical supplies.

Elaine: It sounds interesting, but we should be cautious. I wonder what amount of PPC product sales JRP would need before we begin to earn a return on the initial investment?

Steve: I will provide my preliminary research figures.

Elaine: Finally, as Gord mentioned earlier, we have an opportunity to offer an advanced training program, Training+. Irene is an expert dog trainer, and JRP has yet to offer a dog training service.

Julia: Moving forward with this project would probably help us retain Gord and Irene, but what if they decide to leave JRP?

Richard: I am sure we could find another dog trainer to lead the program.

Julia: Maybe. But isn't there a lot of competition for dog training programs?

Elaine: Indeed, there is. But the Training+ course is different because it goes far beyond the basics and offers an experience for both dogs and dog owners. We could charge a much higher price for this program compared to regular training courses.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Steve: What kind of experience does Training+ offer?

Elaine: For the duration of the program, both the dogs and dog owners will stay onsite for an exclusive experience that will provide the dog owners with the chance to make friends. And at the end of the program, Irene is confident that each dog will be competent enough to enter obedience competitions. Pet parents will love that!

Steve: I'm not sure, Elaine. There are endless training videos for free online. And what about the dog bite incident that happened at BALA when Irene was demonstrating a training technique? That pet owner left a very bad online review of BALA.

Elaine: That's true, but neither JRP nor Irene can be held responsible for one misbehaved dog. Irene is a master, and she's willing to provide the education necessary to all the other instructors the Training+ program would need. After the first few cohorts of dogs, JRP would have a highly competent group of dog trainers. That could be a huge asset for us going forward.

Julia: Good point, Elaine. Thank you all for your contributions today. CPA, the board looks forward to your report. Meeting adjourned.

APPENDIX II
INDUSTRY UPDATE

A number of prominent Canadian economists have recently projected that the sharp increase in inflation is expected to continue for at least the next two years before hitting a plateau in 2028. It could take several years after that before Canada's inflation rate comes down to the historical average. Given this projection, borrowing costs are also expected to continue to increase for the foreseeable future.

The trend of pet parents to treat their pets as family members has continued to intensify. Because of this, many pet owners consider their pet's health important, so if their pets get sick, owners are likely to pay for any necessary medicines or veterinarian visits.

This trend has led to an increase in demand for pet medicines, which has triggered many new pharmaceutical suppliers to enter the market. In the past year, there have been several incidents of pets becoming ill after taking medicine from two of these new market entrants that did not follow the strict requirements set by Health Canada. As a result of these incidents, the regulations around animal medicines have become stricter and penalties for violations have increased.

APPENDIX III
EXPANSION OF PREMIUM DOG CAMPS

Prepared by Elaine

So far, BALA has had two main types of customers: dog owners who want a unique vacation that includes their dogs, and dog owners who use BALA as a boarding service while they go on business trips or personal vacations.

The original BALA location cost $4.8 million, but the combined cost to purchase both new locations is $6.8 million since the new locations are not quite as big as BALA. Each new location will be able to accommodate only 40 dogs per day, whereas BALA can accommodate 60.

I have put together the following analysis, based on the actual results from BALA's first year of operations (2024):

Description	Current BALA Location (ACTUAL)	Two New Potential Locations (Combined PROJECTION)		
Occupancy rate	60%	50%	70%	90%
Daily rate per dog	$ 105	$ 105	$ 105	$ 105
Max number of dogs per day	60	80	80	80
Days open per year	365	365	365	365
Total pet camp fees	$ 1,379,700	$ 1,533,000	$2,146,200	$ 2,759,400
Merchandise sales	500,000	605,500	800,000	1,000,000
Grooming	65,000	77,500	112,000	143,000
Pet owner stays	438,000	497,000	631,300	832,200
Total revenue	2,382,700	2,713,000	3,689,500	4,734,600
Total costs	1,366,540	1,965,100	2,096,000	2,116,920
Net income	$ 1,016,160	$ 747,900	$1,593,500	$ 2,617,680

APPENDIX IV
PET PHARMACIES

Prepared by Julia

Because JRP will need to renovate its existing stores to make room for the pet pharmacies, the company will have less shelf space to offer pet supply products. In addition, each renovation will take around three weeks to complete. However, the stores will be able to remain open during this time.

Given the increase in demand for pet medicines and pharmaceutical products, the demand for certified pet pharmacists, a profession newly created in 2024, has recently increased. As this is a new profession, some veterinarian clinics and pet pharmacies are having a difficult time finding and hiring these professionals.

Based on my research and the discussions I've had with my veterinarian friends, I compiled the following estimates for the likely revenue and costs associated with offering pet pharmacies within JRP's stores:

- A pet pharmacy could be opened at each of JRP's existing 20 store locations. The renovation cost is estimated to be $225,000 per location.
- Each pet pharmacy will employ one certified pet pharmacist at an annual salary of $120,000.
- Annual administration costs for each pet pharmacy are expected to be $77,500.
- Each pet pharmacy is expected to generate $460,000 in revenue each year.
- The cost to obtain the pet pharmaceutical supplies will provide a 50% gross margin.

APPENDIX V
PET FRESH PARTNERSHIP

Prepared by Richard

To enter the partnership agreement, JRP will be required to pay Pet Fresh $650,000. Pet Fresh will use these proceeds to lease and renovate a facility in Canada where the boxes will be assembled and shipped from. In return, JRP will earn 50% of all profit generated from the new operation.

Pet Fresh has been in operation in Germany for two years. Based on their experience, Pet Fresh's management expects the new partnership with JRP will earn $1.3 million in revenue annually. The cost of goods sold is estimated to be 40% of revenue. Shipping expenses are currently estimated to be $300,000 per year, and administration costs will be $200,000 per year.

However, there is some uncertainty surrounding both the cost of goods sold and the projected shipping expenses. The main component of cost of goods sold is the price of food, and the main component of shipping expenses is the price of fuel. In recent years, the prices of these items have tended to increase from year to year, given factors such as inflation. Therefore, the cost estimates given above for these items could increase. Depending on whether the potential price hikes are moderate or high, we can expect the costs of these items to increase in the following ways next year:

Item	Moderate	High
Cost of goods sold	8%	15%
Shipping expenses	20%	40%

APPENDIX VI
PET PHARMACEUTICAL DISTRIBUTION AGREEMENT

Prepared by Steve

The agreement with PPC will allow JRP to distribute pet pharmaceuticals to veterinarians and pet pharmacies across Canada. A recently introduced regulation requires businesses to have a licence, and a certified pet pharmacist on staff to prescribe pet pharmaceutical products.

All PPC products have been approved for sale within the United States.

The proposed agreement requires JRP to pay an initial $500,000 to acquire the exclusive distribution rights to PPC's products within Canada. Based on our market research, we expect to sell around $16.5 million of PPC's products annually. JRP will earn 6% on all of PPC's Canadian product sales throughout the duration of the agreement. The agreement has a five-year term and an option for JRP to extend the contract for an additional five years. JRP's annual fixed costs associated with becoming PPC's Canadian distributor are estimated to equal $540,000, and JRP expects the project's variable costs to be 2% of PPC's annual Canadian product sales.

APPENDIX VII
TRAINING+ COURSE

Prepared by Elaine

Before JRP can begin to offer the Training+ courses, Irene needs to provide training to the other people who will become trainers for the program. The only other startup cost of this potential venture will be advertising to attract pet owners to the program. JRP estimates these upfront costs will total $100,000.

Irene plans to offer two variations of the Training+ course: one that will last one week and another that will last two weeks. However, there will be no overlap between course types as only one course can effectively operate at any given time.

Course Type	One Week	Two Week
Number of courses offered per year	16	10
Price charged to dog owners	$2,000	$3,500
Number of dogs per course	12	12

The variable costs associated with operating the Training+ course are expected to equal 30% of revenue. The total wage expense for the trainers who will operate the program will equal $6,200 for each week the course is offered. If BALA is no longer available as the location for the Training+ courses, JRP will need to rent the facilities required to operate the training program—a suitable location has been found that will cost the company $5,600 per week. Lastly, there will be an annual fixed cost of $130,000 related to the administration of the program.

COMMON FINAL EXAMINATION
SEPTEMBER 12, 2023 – DAY 1

Case (CFL-Version 2) **(Suggested time: 240 minutes)**

The date is May 1, 2025, and your boss at Serringers Consulting Group LLP (SCG) has assigned you, CPA, to another engagement with CanDo Fitness Ltd. (CFL).

Since SCG's engagement with CFL in 2022, CFL converted the eight fitness facilities identified by Brian into indoor climbing facilities. CFL also accepted Amanda's PurCafés proposal to open health food cafés within five of CFL's fitness facilities. So far, both investments have been successful. CFL decided against the acquisition of Mighty Fitness Inc. and did not proceed with the Zenfit proposal.

In order to make these investments, CFL accepted the sale-leaseback option from Hume Properties REIT (HPR) and cancelled the annual shareholder dividend of $2 million for 2022. The company has since resumed paying the annual dividend. CFL must also spend $4 million annually on new gym equipment to ensure that its fitness facilities stay up to date. In addition to these funds needed for the company's annual equipment purchases, CFL also has $6.5 million available for new investment projects but no access to further debt financing.

CFL successfully negotiated an agreement with its fitness instructors, increasing their compensation, and paying them fairly for all hours worked (including the time it takes to prepare, set up, and take down any equipment required for the class). The quality of fitness classes has therefore improved, resulting in greater member satisfaction and increased member retention.

Given the success of the PurCafés and climbing wall initiatives, the Board of Directors (the board) is eager to make investments to further diversify CFL's sources of revenue. For any strategic investments made, the board wishes to increase both CFL's revenue and EBITDA. However, given the desire to protect the company's dividend, the board will give preference to less risky projects that are simple to operate and that provide a stable and reliable source of revenue.

In late 2022, the company's vision and mission statements were updated and are currently as follows:

Vision statement: *To provide equipment, classes, and other amenities and services in a friendly and welcoming atmosphere to motivate and help individuals to achieve a healthy lifestyle.*

Mission statement: *To provide the means for people of all ages to embrace a fit and healthy lifestyle, providing state-of-the-art equipment and innovative, fun, and challenging group classes.*

In recent years, the popularity of healthy lifestyle choices has grown considerably, resulting in a significantly higher demand for fitness products and services. Products and services that provide the convenience of working out at home have become particularly popular, and the demand for nutritious food options has grown steadily.

In January of this year, to support the desire for improved health, the Government of Canada unveiled a new Fitness Rebate Program (FRP), which provides a tax credit of up to $750 per year to all Canadians who purchase products and services directly related to exercising.

The board has asked you to review the information provided and prepare a report that strategically analyzes and makes a recommendation for each potential investment option. You are also to advise the board of any significant factors that have not been considered. The board would also like you to comment on CFL's overall strategic direction and on how each proposal could influence that direction. For this engagement, please ignore any corporate tax implications within your analysis and recommendations.

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APPENDIX I
BOARD MEETING WITH CPA IN ATTENDANCE

May 1, 2025

Phillip: Thank you for joining us, CPA.

I am happy to say that CFL's financial situation has improved since our last engagement with SCG. We mainly attribute this to our improved annual membership retention rates and to the additional revenue generated from our climbing walls and PurCafés.

Rosa: CPA, we should also mention that we have begun discussing reducing our involvement in the day-to-day operations of CFL. Although a firm date has not been set, the intention is to remain as board members, but to entirely hand over CFL's management functions to the company's senior managers in roughly five years.

Phillip: Good point, Rosa. CPA, once we are not actively managing operations, we will no longer take a salary, and will instead rely on the dividends we receive from CFL to fund our retirements.

CPA: Noted.

Phillip: Great. Frank, please introduce the first investment option.

Frank: Iron Depot has recently been put up for sale, for $10 million. It sells both new and used exercise equipment at reduced prices. There are currently nine Iron Depot outlets, located in Victoria, Vancouver, Edmonton, Calgary, Saskatoon, Winnipeg, Ottawa, Quebec City, and Halifax.

Rosa: We do not have enough available investment capital for this, Frank.

Frank: Thankfully, that does not preclude this option. The current owner of Iron Depot is willing to provide a $7.5 million loan to the purchaser, so we would only need to pay $2.5 million in upfront cash.

Sandra: Although diversifying our revenue sources is important to the board, it concerns me that Iron Depot's business is significantly different from anything we have done before. What else can you tell us about Iron Depot?

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

May 1, 2025

Frank: The company began nearly 25 years ago with an outlet in Victoria. Since then, it has gradually opened new locations across the country. The Halifax location is the newest, having opened in 2021. To date, only one Iron Depot outlet, located in North Bay, Ontario, has had to close. According to our due diligence, the population of North Bay, at just over 50,000 people, was too small to support an exercise equipment retailer. Most of Iron Depot's customers are fitness facilities similar to CFL, and individuals who want exercise equipment at home.

Phillip: If we buy it, who will manage the nine outlets? Will Iron Depot's current management team stay on board after the sale?

Frank: Unfortunately, the current owner, who takes an active approach in the company's management, wants to retire completely after the sale. We would need to hire a senior manager to oversee the operations. However, Iron Depot's business model is quite basic. The most important contributors to the company's success are three main supplier contracts, which provide Iron Depot with wholesale prices on equipment. Each of these contracts has recently been locked in for at least another 10 years.

Rosa: Companies similar to Iron Depot have recently sold at a price equal to 4.5 times their EBITDA. Frank, tell us more about the supplier contracts. Given that CFL could buy equipment at wholesale prices, what discount would we get on our future equipment purchases, compared to what we currently pay?

Frank: At least 20%. These supplier contracts could also be used for purchases beyond Iron Depot's inventory.

Phillip: Thank you. Sandra, you are next.

Sandra: Thanks, Phillip. Sunnyside Hotels (Sunnyside) wants to capitalize on the current popularity of health and fitness by opening a small, but well-equipped, gym in each of its seven hotels. As Sunnyside has no experience in this area, it approached CFL to see whether we would be interested in signing a management contract for the hotel gyms.

As part of Sunnyside's current proposal, CFL would be responsible for designing and operating each hotel gym, and for providing the necessary equipment. CFL would retain ownership of the equipment installed in the hotel gyms. In return, Sunnyside would pay CFL a fixed amount each year.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

May 1, 2025

Frank: It will be a challenge to design the gyms, especially because we have limited space within each hotel. After the gyms open, what other responsibilities would CFL have?

Sandra: CFL would provide the staff necessary to operate each hotel gym and maintain the equipment. CFL will also be required to provide new equipment every two years. Sunnyside has proposed calling the hotel gyms "Sunnyside Gyms by CanDo Fitness."

Brian: I like the fact that CFL would get free marketing through this arrangement. We might be able to convert some hotel guests into members of CFL's gyms.

Phillip: Yes, but what happens if something goes wrong or someone gets hurt in a hotel gym?

Rosa: And how much will it cost to buy all the necessary equipment?

Sandra: Prior to today's meeting, I had Frank compile a rough estimate. Based on conversations with one of CFL's existing suppliers, he estimates that it will cost a total of approximately $650,000 to provide all seven hotel gyms with new equipment.

Phillip: Thanks, Sandra. Brian, you are next.

Brian: Okay. Through my friends in the film industry, I was introduced to Rise Edustream (RiseEd), which is a company that produces and distributes educational videos. RiseEd has offered CFL the opportunity to use their services in order to create fitness videos for an online platform.

Phillip: This sounds like the video-streaming component of the Zenfit proposal we assessed in 2022.

Brian: That's right, Phillip. The concept is the same; however, in this case, the videos would use our brand instead of Zenfit's. Because of that, CFL could receive a great amount of exposure to a new potential client base. We would also be in complete creative control regarding the type of videos we release. Strength, cardio, yoga, meditation, you name it—we could create an extensive catalogue of fitness videos that our subscribers could use at home.

Rosa: What will it cost? And what role will RiseEd play?

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

May 1, 2025

Brian: RiseEd will charge us a fee based on the number of subscribers that we attract to the platform. For each 10,000 subscribers or part thereof, RiseEd will charge us $2 million annually. For example, if at the end of the year, we have 2,500 subscribers, RiseEd will charge us $2 million for that year. If at the end of the next year, we have 21,000 subscribers, RiseEd will charge $6 million for that year.

RiseEd will look after the technology component, such as the online platform that our subscribers will use to access the videos. RiseEd will also produce the videos. CFL will only need to provide the fitness instructors and workout programs, and will be responsible for marketing the product and providing its subscribers with customer support.

Rosa: What about startup costs?

Brian: RiseEd estimates a cost of $2.5 million for CFL, of which $1.5 million will go to RiseEd in order to create the online platform. The other $1 million will go toward the development of a filming studio and purchasing the equipment necessary to videotape the workouts.

Phillip: I am not sure, Brian. When we researched video streaming as part of the Zenfit proposal, we discovered many other competitor products, and that was over three years ago! How confident are you about the number of subscribers that RiseEd has projected for each year?

Brian: We would need to increase our marketing budget and the effort we put into our presence on social media. That initiative, combined with using the perfect instructors to lead the workouts, would strongly contribute to the number of subscribers that we will attract to the platform. We could also hire a few professional athletes to promote, and possibly even participate in, the fitness videos we offer.

Phillip: Interesting idea. Lastly, we have identified eight CFL fitness facilities that have underutilized space, which could be used to generate additional revenue. We have two alternatives that we want to consider for the surplus space. Rosa, please tell us about the potential physiotherapy clinics.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

May 1, 2025

Rosa: As we know, exercise and fitness have never been more popular. One consequence of this trend is that more people are suffering from exercise-related injuries. Given this, the demand for physiotherapy services is increasing. I was recently presented with an opportunity from one of our long-term gym members, Nav Srinivasan, a highly experienced physiotherapist. He has offered to oversee the development and operation of eight new CFL physiotherapy clinics. Based on my research, each clinic will cost $495,000 to renovate and equip (equipment costs represent 70% of the initial $495,000).

Sandra: Have we identified the key success factors of this project?

Rosa: The quality of our therapists is critical. Once we have secured a team of highly qualified physiotherapists, we would then need to market our clinics aggressively. As well, the reputation of a clinic is critical for its success. We therefore need to ensure that our customers have a good experience.

Brian: Physiotherapy is very different from CFL's current offerings. We would essentially be starting from scratch. We would need to launch a new website for this service.

Rosa: We would also need to secure comprehensive insurance coverage. However, once the clinics reach full utilization, the profitability of the project is undeniable. This is a highly specialized and technical service, and the revenue potential is very attractive.

Frank: Would the clinics' customers be able to use the new FRP government rebate?

Rosa: Not currently. However, the government has indicated that it may revise the program's guidelines to include physiotherapy in the future.

Phillip: Offering our members these services directly within our gyms would be a competitive advantage for us. It may help us attract and retain members. Sandra, please tell us about the other alternative.

Sandra: Okay. Amanda would like to expand our PurCafés arrangement by opening a new café in each one of the gyms that has underutilized space. Each new café will cost $340,000 in renovations. If we accept the proposal, Amanda's compensation will increase to 20% of PurCafés' net operating profit.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

May 1, 2025

Phillip: Amanda has certainly proven herself. We have received excellent feedback from our first five cafés, and our members love having easy access to tasty and nutritious food.

Rosa: Although that is true, the revenue potential for these cafés is far below that of the physiotherapy clinics. As well, Amanda has been making decisions on her own lately. For example, she altered several menu items without discussing that change with us first. That is a worrying trend.

Sandra: I also question Amanda's workload. Since 2022, she has opened three more of her own vegetarian restaurants, and now wants to open eight more PurCafés? That seems like a lot. With all that Amanda has going on, I am concerned that the quality of our PurCafés will decline.

Frank: Amanda has been a pleasure to work with and has helped create value for CFL. With the original five PurCafés, the initial renovation was certainly a logistical challenge, but once they opened for business, the board's involvement in the operations of the cafés has been minimal. Amanda has taken the lead at every step.

Sandra: And finally, the trend toward healthy lifestyles has attracted many new entrants into the market. There are now far more restaurants and cafés that offer healthy choices when compared to three years ago.

Phillip: Good point, Sandra. Thank you all for your contribution today. CPA, the board looks forward to your report. Meeting adjourned.

APPENDIX II
IRON DEPOT

Prepared by Frank Chang

Since its inception, Iron Depot's revenue growth has been driven mainly by the opening of new outlets. Each current outlet has one manager, and a few staff members who help answer customer questions.

Financial Details

Iron Depot
Income Statement
For the year ended December 31, 2024
Audited

Revenue	$ 18,720,200
Expenses	
Purchases	10,296,100
Wages	2,550,400
Occupancy costs	1,928,600
Marketing and advertising	950,100
General and administrative	827,200
Total expenses	16,552,400
Operating income	2,167,800
Less: interest expense	91,800
Income before taxes	$ 2,076,000

Included in general and administrative expenses is a one-time, $450,000 expense incurred to hire an investment bank and accounting firm, to help Iron Depot with the sale of the company.

Included in wages is the owner's salary of $75,000. CFL will likely pay the senior manager, who will replace the owner, a salary of $115,000 per year.

As of December 31, 2024, Iron Depot had the following:
- A cash balance of $10,000
- An outstanding interest-bearing debt balance of $1.4 million

APPENDIX III
SUNNYSIDE HOTELS GYM MANAGEMENT CONTRACT

Prepared by Sandra MacCarthy

Sunnyside will compensate CFL $1.85 million for each year of the contract.

The initial term of the contract will be five years, and will be extended for an additional five years if Sunnyside's guests are satisfied with the gyms.

Sunnyside expects the gyms to open on January 1, 2026. Each gym will be open from 6:00 am to 10:00 pm, 365 days per year. As part of the contract, Sunnyside requires each hotel gym to always have one CFL staff member present during opening hours. These staff members will be expected to answer questions that the gyms' users may have, and to ensure that the equipment is well maintained. CFL will pay these staff members $20 per hour. CFL will also need to hire a new senior manager to oversee the gym operations within Sunnyside's hotels, at a salary of $115,000 per year.

The salvage value of the used equipment will be approximately 40%. The cost of capital for this project is 12%.

APPENDIX IV
STREAMING FITNESS CLASSES

Prepared by Brian Mitchell

The audience for streaming fitness videos has grown quickly. A recent industry report indicated that this trend is expected to continue for the foreseeable future. Other fitness companies have been able to secure a loyal base of subscribers through pairing their streaming videos with a unique piece of exercise equipment, such as Zenfit's Zentracker exercise machine. In discussions with RiseEd, they mentioned the exciting possibility of CFL developing its own piece of unique equipment at some point in the future.

RiseEd provided the following projection for the project's first three years. All expenses are fixed, other than RiseEd's fee, which will increase with each additional 10,000 subscribers (or part thereof).

	2026	2027	2028
Number of subscribers	10,000	25,000	35,000
Subscription cost (monthly fee)	$40	$40	$40
Monthly revenue	$400,000	$1,000,000	$1,400,000
Annual revenue	$4,800,000	$12,000,000	$16,800,000
Expenses			
Fee to RiseEd	2,000,000	6,000,000	8,000,000
Labour	750,000	750,000	750,000
Marketing	500,000	250,000	250,000
General and administrative	45,000	45,000	45,000
Total expenses	3,295,000	7,045,000	9,045,000
Operating income	$1,505,000	$4,955,000	$7,755,000

RiseEd has proposed that the agreement have an initial term of six years, with a renewal option at CFL's discretion for a further six years.

APPENDIX V
PHYSIOTHERAPY CLINICS

Prepared by Rosa van der Schuren

Financial Projections and underlying assumptions

- Each physiotherapy clinic will be open from Monday to Friday from 9:00 am to 5:00 pm for 48 weeks each year.
- Each clinic will have a waiting room and four private examination rooms.
- If the eight clinics can achieve 100% utilization, revenue is projected to be $6,720,000. At 75% and 50% utilization, revenue would equal $5,040,000 and $3,360,000, respectively.
- Operating costs are expected to be as follows:
  - Variable costs will equal 20% of revenue.
  - Each clinic will employ four physiotherapists, at an annual salary of $90,000 each.
  - Other fixed costs are expected to be $105,000 per clinic per year. Amortization is included in this amount (each clinic's equipment is expected to have a 10-year life).
- Not included in the above expenses is Nav's requested annual salary of $250,000, to lead the development and operation of the new clinics.

Additional Project Details

- For accessibility reasons, each gym with a physiotherapy clinic will require parking spots to be dedicated to the clinic in front of the gym.
- Lenders have a favourable perception of healthcare-related clinics that have achieved stable revenue. These clinics can often access debt financing at favourable rates.
- Patients who are satisfied with the treatment they receive appear to be highly loyal to their physiotherapy clinic.

APPENDIX VI
OPENING OF NEW PURCAFÉS

Prepared by Sandra MacCarthy

The following internally-generated earnings report details the average performance of a PurCafé. The report was compiled using data from CFL's existing five PurCafés.

PurCafés
Earnings Report (per café average)
For the year ended December 31, 2024

Revenue	$ 896,400
Expenses	
Variable cost of food and beverages	421,300
Labour	131,000
Supplies and other costs	50,000
Amortization	39,000
Advertising	11,000
Total expenses	652,300
Operating profit	244,100
Amanda's portion (15%)	(36,600)
Net operating profit to CFL	207,500
Number of PurCafé locations	5
Total operating profit to CFL	$ 1,037,500

Currently, 80% of the PurCafé revenue is generated from CFL members who eat in the café after a workout; the other 20% is from non-members who only come into the gym to use the café. Since the introduction of the first five cafés, membership retention rates at the fitness facilities that include a PurCafé have improved. Members have also commented that the cafés have helped to strengthen the community atmosphere of the gyms. However, throughout this year, CFL has received several comments from gym members, who say that the quality of service at the cafés has declined lately. One member also mentioned that, for the first time since their gym's café opened, certain menu items were unavailable to order.

To supply the proposed eight new PurCafés, Amanda plans to lease two additional locations that will be used to process the food before it is ready for the cafés. The annual lease expense will be $225,000 for each location. Aside from this new expense, Amanda expects that the revenue and costs for each new PurCafé will be very comparable to the average performance of the existing PurCafés.

Appendix C: September 13, 2023 – Day 2 Simulation and Marking Guides

APPENDIX C

SEPTEMBER 13, 2023 – DAY 2
SIMULATION AND MARKING GUIDES

COMMON FINAL EXAMINATION
SEPTEMBER 13, 2023 – DAY 2

Case

Assume the pre-selected role in which you will be formulating your response. Answer all requireds as specifically directed in your role. Within the requireds for each role, candidates are directed to look at specific additional appendices, which are unique to each role. Use only the information you have been directed to refer to.

Information that is shared by all roles is presented in the "Common Information" section. Additional information, customized to each role, is presented in the "Specific Information" section.

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BACKGROUND
COMMON INFORMATION FOR ALL ROLES

Bold Plant Foods Limited (Bold) manufactures plant-based chicken (chick'n) products in the form of burgers, nuggets, and sausages, as well as plant-based turkey (turk'y) bacon. Its manufacturing facilities and head office are in Winnipeg, Manitoba. Bold sells to small grocery retail chains and independent grocery stores in Canada and the western United States and to a few restaurants. Bold prepares its financial statements using ASPE.

The company was started in 2012, selling only chick'n products at the time. The founding shareholders are two friends: Juliette Pfeiffer, an industrial engineer, and Simon Kinnunen, a food scientist. Each owns 10,000 common shares. In 2019, Treadstone Investment Limited (Treadstone), a private equity investment firm, invested $8 million for 30,000 voting fully-participating preferred shares, giving Treadstone 60% of the voting shares. Soon after, Bold acquired the net assets of a company that produced turk'y bacon.

Treadstone is solely owned by Richard Derman. Two Treadstone representatives, Allan Tokko and Yasmin Ozar, both CPAs, sit on Bold's four-member Board of Directors (the board) with Juliette and Simon. Treadstone invests in private companies with the goal of improving the company's share value, and to ultimately dispose of the shares after a period of five to eight years. For all its investments, Treadstone is very involved in day-to-day operational decisions. Operational decisions are made with the objective of maximizing divisional monthly profits.

Treadstone has called a board meeting because Allan and Yasmin are concerned that Bold is struggling to maintain profitability and has been unable to meet sales and profit targets. Treadstone has been approached by several strategic buyers interested in acquiring its Bold shares, but discussions are still preliminary, and Treadstone has received no offers.

Today is March 10, 2023. Juliette and Simon believe Bold can achieve substantial growth and value creation, especially given its patents and proprietary technology. Their goals are to invest more in automated equipment, reduce operating costs by achieving greater efficiency and economies of scale, reduce product development timelines, and build the brand name, to remain competitive.

Additional information, customized to your role, is presented in your role package.

REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

ASSURANCE REQUIREMENTS

You, CPA, work as an internal auditor for Treadstone and report directly to Kayla Minhas, the internal audit manager at Treadstone. Treadstone's internal audit department has two main priorities: performing assurance projects to assess the operations and financial results of the companies Treadstone invests in, and offering consulting services to them on any issues encountered.

The board of Treadstone has asked the internal audit department to perform an analysis of specific issues and opportunities at Bold. Kayla has asked you to complete some tasks related to product costing, breakeven, and sales variances for the chick'n division. She has also asked you to discuss the financial reporting issues noted by Juliette, as well as the Meals 2 Go Inc. transaction entered into in 2022, since the board of Treadstone would like internal audit's opinion of these items for when they review Bold's financial results.

Treadstone requires a fraud risk assessment to be performed every two years on all its investments. Kayla asks you to document the fraud risk factors associated with the possibility of fraud by Bold management and employees, at both the overall financial statement level and specific to revenue, and to describe the auditor's expected response to each of the risk factors.

To prepare Bold for its upcoming year-end audit, Kayla would like you to describe the audit procedures the external auditors will likely perform on the financial reporting issues identified by Juliette and Kayla. In addition, she asks you to discuss any internal control weaknesses you identify in Bold's purchases and payables process, and provide recommendations to address them.

As part of an internal audit project to review Bold's property, plant, and equipment, Bold has provided a report of a sample of data from the equipment subledger. Kayla asks you to analyze this report for anomalies, and recommend additional audit procedures to address the anomalies identified.

Bold is planning to acquire Gretta's Mobile Vegan Foods Limited (Gretta), and wants to verify that Gretta follows provincial regulations on food handling, storage, and preparation. Bold has asked Treadstone's internal audit department for assistance in reviewing the potential acquisition. Kayla asks you to recommend audit procedures that could be performed to verify that Gretta complies with the provincial regulations.

Kayla has also asked you to comment on the draft internal audit plan for Bold for 2023 that a junior associate has prepared. Both Bold and Treadstone's external auditors have confirmed that they will not be relying on the work of the internal audit department for the 2023 year-end audit.

In addition to the common appendices (I to IV), information provided in Appendix V (Assurance) is relevant for your analysis.

REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

FINANCE REQUIREMENTS

You, CPA, work as a financial analyst for Treadstone and report directly to Yasmin. Yasmin has asked you to complete some tasks related to product costing, breakeven, and sales variances for the chick'n division. She has also asked you to discuss the financial reporting issues noted by Juliette.

Treadstone's goal is to dispose of its investments for an annualized return of 20%. Yasmin wants you to prepare a valuation of Bold using the capitalized cash flow method based on 2022 information only, and estimate Treadstone's annualized return on its investment based on this valuation.

Bold is considering replacing the machine used to produce chick'n burgers with a machine that will automate the production process. Yasmin asks you to prepare a capital budget analysis of the project, discuss assumptions and risks that would affect your analysis, and make a recommendation.

The shareholders are concerned about Bold's cash flow. Yasmin asks you to calculate Bold's cash conversion cycle, discuss Bold's working capital, and estimate the cash impact of bringing Bold's working capital in line with industry averages. Next, she asks you to prepare a quarterly cash flow for each of the next three quarters, incorporating existing financing costs and assuming working capital is in line with industry averages. You are to conclude on the amount of additional short-term financing required, if any.

Bold requires an additional $10 million in long-term financing, to invest in increasing its production capacity and generating economies of scale, allowing it to increase its market share. Planet Earth Ethical Fund has provided a financing proposal. Alternatively, Treadstone offered to invest $10 million with the same payment and conversion terms. Yasmin asks you to analyze these options from the perspectives of Bold and each of its shareholders, and provide a recommendation.

Treadstone needs to decide whether to remain invested in Bold or sell. To support this analysis, Treadstone has gathered some industry data. Yasmin asks you to assess the quality and relevance of the data and provide an analysis of Bold's performance against the relevant data.

Yasmin would like you to calculate the price at which Treadstone would need to sell to realize its targeted annualized return, and discuss the implications of selling according to the terms and conditions of the shareholders' agreement. Taking into account all of your analyses, she would also like you to recommend whether Treadstone should remain invested in Bold or sell.

In addition to the common appendices (I to IV), information provided in Appendix V (Finance) is relevant for your analysis.

REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

PERFORMANCE MANAGEMENT REQUIREMENTS

You, CPA, work as a financial analyst for Treadstone in their management consulting department and report directly to Allan. Allan has asked you to complete some tasks related to product costing, breakeven, and sales variances for the chick'n division. He has also asked you to discuss the financial reporting issues noted by Juliette.

Currently, Bold has contracts with two pea protein suppliers, but a new pea protein manufacturer, AgroPea Inc. (AgroPea), recently opened a facility in Manitoba. Allan would like you to analyze whether Bold should terminate its existing contracts and enter into a new, long-term supply contract with AgroPea.

A potential new customer has requested just-in-time delivery to various locations across Canada. Treadstone has an investment in a logistics company, FFD Inc. (FFD), so Allan has prepared cost estimates for this customer using either Bold's existing shipping company or FFD. Allan asks you to analyze this information and recommend which company to use.

The manager of the turk'y division has voiced concerns that the internal transfer price for the protein mixture is too high. Allan asks you to review the current transfer pricing policy, and to analyze other potential options from a quantitative and qualitative perspective, and make a recommendation.

Recently, the company received results from a market survey. Allan asks you to interpret the survey results and recommend how Bold could improve.

The sales employees have complained about the new compensation plan that went into effect in 2022. Allan asks you to analyze the compensation plan's strengths and weaknesses and recommend improvements.

Based on goals identified by the shareholders and the various analyses you have performed, Allan also asks you to develop a new balanced scorecard that identifies goals, an underlying measure for each goal identified, and a proposed target for 2023.

Finally, Allan asks you to assess whether Bold still meets Treadstone's strategic objectives and, if it does not, to summarize all operational improvements required to do so.

In addition to the common appendices (I to IV), information provided in Appendix V (Performance Management) is relevant for your analysis.

REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

TAXATION REQUIREMENTS

You, CPA, work as a taxation specialist for Gaber & Peterson LLP (G&P), and report to Sharon Chung, CPA. G&P has provided taxation and financial consulting services to Bold and its shareholders for many years. Sharon has asked you to complete some tasks related to product costing, breakeven, and sales variances for the chick'n division. She has also asked you to discuss the financial reporting issues noted by Juliette.

Next, Sharon asks you to calculate Bold's taxable income and federal income taxes payable for 2022. As part of this work, she would like you to determine which companies Bold is related to and which companies it is associated with, and to explain why these relationships are important to understand. Sharon would like you to evaluate the income tax treatment of a proposed intercompany transaction.

The shareholders have decided that Juliette should visit existing and potential customers more often. As a result, Juliette will require the use of an automobile. Sharon asks you to discuss the income tax and GST/HST implications for Juliette personally, and for the company, if Bold purchases or leases an automobile.

Juliette also needs assistance preparing her personal income tax return. Sharon asks you to calculate the income tax implications of the sales of shares, and then estimate Juliette's federal income taxes payable for 2022.

In addition to the common appendices (I to IV), information provided in Appendix V (Taxation) is relevant for your analysis.

APPENDIX I – COMMON BACKGROUND AND INDUSTRY INFORMATION

Bold creates a protein mixture consisting primarily of sunflower oil and pea protein. Using proprietary technology and a recipe developed by Simon, the mixture is processed into products with the look and taste of chicken. The shareholders believe this unique process results in a better-tasting product, even though it costs more to produce. The same protein mixture is used, after being further processed, to produce turk'y bacon. The price of pea protein fluctuates significantly.

Bold has three divisions that each track their revenues and expenses separately:

- The protein mixture division processes raw materials into the mixture used in the products sold by the other two divisions.
- The chick'n division manufactures and sells nuggets, burgers, and sausages.
- The turk'y division manufactures and sells turk'y bacon.

The plant-based alternative industry is in a growth stage, with annual growth rates expected to be 15% for the next two years. Products in this industry include plant-based alternatives for beef, pork, chicken, turkey, and seafood in many forms. Companies in this industry, including Bold, continuously look for ways to reduce their environmental impact.

Bold's sales have not grown as quickly as expected due to poor brand recognition and limited presence in some distribution channels. Bold has not had the capacity to meet the production volumes required by national restaurants and grocery chains, and has been unable to meet the prices demanded by these customers. During the past year, Bold has lost market share to competitors.

In the first quarter of 2023, Bold implemented different marketing strategies to increase sales. For burgers, Bold charged independent retailers a slightly higher-than-average price on the assumption that a small increase would not affect sales volumes. However, sales declined from this customer group. To increase the number of sausages sold, Bold offered a temporary discount on the price of sausages to retailers. In February 2023, Bold negotiated a contract for the sale of chick'n nuggets to a new customer, a small chain of vegan grocery retailers. A lower-than-average price was negotiated, and the customer committed to a large sales volume.

APPENDIX II – COMMON
EXCERPTS FROM DRAFT FINANCIAL STATEMENTS

Bold Plant Foods Limited
Balance Sheet
As at December 31
(in thousands of Canadian dollars)

	2022 Draft	2021 Audited
Assets		
Current assets:		
Cash and cash equivalents	$ 1,193	$ 1,421
Accounts receivable	10,404	9,044
Inventories	12,403	10,355
Prepaid expenses	2,120	1,790
Total current assets	26,120	22,610
Property, plant, and equipment (PP&E) – net	27,121	25,271
Patents	464	0
Goodwill	2,640	2,640
Total assets	$ 56,345	$ 50,521
Liabilities		
Current liabilities:		
Line of credit	$ 4,000	$ 4,000
Trade payables	15,204	13,442
Accrued liabilities	3,870	2,753
Current portion – term loan	1,000	1,000
Total current liabilities	24,074	21,195
Asset retirement obligation	1,398	1,052
Note payable – supplier	2,000	0
Long-term debt – term loan	14,300	15,300
Total liabilities	41,772	37,547
Shareholders' equity		
Preferred shares	8,000	8,000
Common shares	2,000	2,000
Retained earnings	4,573	2,974
Total shareholders' equity	14,573	12,974
Total liabilities and shareholders' equity	$ 56,345	$ 50,521

APPENDIX II – COMMON (CONTINUED)
EXCERPTS FROM DRAFT FINANCIAL STATEMENTS

Bold Plant Foods Limited
Statement of Earnings and Retained Earnings
For the years ended December 31
(in thousands of Canadian dollars)

	2022 Draft	2021 Audited
Revenues	$ 108,500	$ 96,400
Cost of goods sold	75,500	66,357
Gross profit	33,000	30,043
Expenses		
Research and development (R&D)	2,138	2,519
Selling, general, and administration	27,500	24,250
Total expenses	29,638	26,769
Operating income	3,362	3,274
Other expenses (income)		
Loss on disposal of assets	22	0
Foreign exchange (gains) losses	210	(150)
Interest – line of credit	260	371
Interest – note payable	13	0
Interest – long-term debt	964	1,024
Total other expenses (income)	1,469	1,245
Income before taxes	1,893	2,029
Income taxes	(294)	(370)
Net income for the year	1,599	1,659
Opening retained earnings	2,974	1,315
Closing retained earnings	$ 4,573	$ 2,974

APPENDIX II – COMMON (CONTINUED)
EXCERPTS FROM DRAFT FINANCIAL STATEMENTS

Additional Notes (in thousands of Canadian dollars)

1. All development costs and patent registration fees are expensed as incurred.

2. Total amortization for 2022 was $3,899 for PP&E and $31 for patents. Amortization is calculated monthly on a straight-line basis and includes the month of acquisition and the month of disposal.

3. Accretion expense on the asset retirement obligation was $50 in 2022 (2021 – $45).

4. The line of credit bears interest at prime (currently 5.0%) plus 1.5%. It is secured by the accounts receivable and inventories.

5. The term loan bears fixed interest at 6%, payable at the end of every month. Annual principal payments of $1,000 are payable on August 31. The term loan matures in August 2036 and is secured by all the company's PP&E. The current fair market value of the loan is $13,200.

6. Information from the 2022 statement of cash flows is as follows:

Operating cash flows	$ 4,742
Investing cash flows	$ (5,970)
Financing cash flows	$ 1,000

APPENDIX III – COMMON
EMAIL FROM VICE PRESIDENT CHICK'N DIVISION

To: CPA
From: Carolyn Abbotsford, Vice President Chick'n Division

Hi CPA,

The following three tasks need to be completed as soon as possible.

First-in, first-out (FIFO) versus Weighted-average Process Costing Method

We currently use the weighted-average costing method for process costing. I would like to know whether we should switch to FIFO. Please determine the work-in-progress inventory balance on January 31, 2023, and the cost of goods manufactured for January for chick'n nuggets, using each method. Also, please discuss the qualitative considerations of switching to FIFO for management decision-making, and recommend which method to use going forward.

Direct materials and conversion costs incurred for the work-in-progress at January 1 were $82,070. During January, total direct materials and conversion costs were $2,005,580. These costs were incurred uniformly throughout the production process.

Here is the production information for chick'n nuggets for the month of January 2023:

Work-in-progress, January 1	3,750 units (60% complete)
Started during January	43,500 units
Completed during January	35,250 units
Work-in-progress, January 31	12,000 units (80% complete)

APPENDIX III – COMMON (CONTINUED)
EMAIL FROM VICE PRESIDENT CHICK'N DIVISION

New Product Breakeven Analysis

The R&D department has spent the last six months developing a new product, chick'n strips, for use in salads and stir-fries. To date, Bold has incurred $256,000 in development costs on this product.

I found a machine, called "Pythagoras," that could produce this product specifically. It would be leased for five years for $1.12 million per year. To decide whether we should lease Pythagoras or use the traditional labour-intensive processes, we need to know the annual breakeven volumes with and without Pythagoras, as well as the volume of sales where we would be indifferent between the two alternatives.

The marketing department suggested a selling price of $35.00 per unit and forecasted that we could sell 250,000 units in the first year. For both options, direct labour is $20.00 per hour and variable overhead cost is $9.80 per direct labour hour. Other estimates are as follows:

Item	Without Pythagoras	With Pythagoras
Direct material cost	$8.00 per unit	$7.00 per unit
Direct labour hours	0.60 hours per unit	0.25 hours per unit

Annual fixed manufacturing overhead costs are $750,000 with or without Pythagoras. By using Pythagoras, Bold will incur annual maintenance of $460,000 regardless of production volumes, plus additional maintenance of $2.50 per unit of production. Annually, Pythagoras will incur additional electricity costs of $390,000, but provide savings of $65,000 from reduced waste disposal costs.

Bold pays its salespeople a commission equal to 20% on the contribution margin (CM) before commissions. Annual fixed salaries and marketing costs will be $680,000 for the new product.

APPENDIX III – COMMON (CONTINUED)
EMAIL FROM VICE PRESIDENT CHICK'N DIVISION

Sales Variance Analysis

One of my employees has prepared the following information for February 2023:

Item	Burgers	Nuggets	Sausages	Total
Actual sales volume in units	47,000	54,000	37,000	138,000
Actual net selling price	$68.50	$48.20	$42.60	
Budgeted sales volume in units	48,000	47,500	39,000	134,500
Budgeted net selling price	$68.20	$49.10	$45.10	
Budgeted CM per unit	$18.13	$11.20	$11.90	
Budgeted weighted average CM per unit				$13.88

Please calculate, for each product, the sales volume variance. Please then break down the variance between the sales quantity variance and the sales mix variance. I would then like you to provide a discussion of the causes for the variances, and the impact of the variances on profits.

APPENDIX IV – COMMON
NOTES FROM MEETING WITH JULIETTE

Juliette is interested in the impact on the December 31, 2022, financial statements for the following three items.

Goodwill

Turk'y division sales were $25 million in 2021, and $21 million in 2022. In 2022, the division lost two large contracts, representing $5 million of its annual sales, to a new competitor who has been aggressively targeting Bold's customers and is able to produce the volumes required at a competitive price.

In addition to the $2.64 million of goodwill, the following are the assets and liabilities of the turk'y division:

Account	Carrying Value as at December 31, 2022
Accounts receivable	$1,950,000
Inventories	2,114,000
Property, plant, and equipment (net)	6,432,000
Accounts payable	3,020,000
Asset retirement obligation	560,000

All of the assets, except for goodwill, have already been tested for impairment. No impairment was required to be recorded.

Other estimated information related to this division is the following:

Total undiscounted future cash flows	$11,200,000
Fair value before disposal costs	$ 8,900,000
Disposal costs if sold	$ 450,000
Value in use	$ 9,200,000

Note Payable

Bold purchased new manufacturing equipment for $3.2 million, paying the supplier $1.2 million on delivery (September 1, 2022), and issuing a $2.0 million note payable, due on September 1, 2024. Bold has recorded a liability of $2.0 million. Annual interest of 2% (payable monthly) has been expensed as incurred. Bold selected the note payable rather than using its line of credit, due to the below-market interest rate.

APPENDIX IV – COMMON (CONTINUED)
NOTES FROM MEETING WITH JULIETTE

Subsequent Events

Grant

In November 2022, Bold applied for a competitive grant to develop a new product. This was a new provincial government program designed to promote development of products using raw inputs grown in Manitoba. A maximum of 10 recipients would be selected for the grant out of the 100 applicants. Bold's eligible expenses totalled $350,000 for 2022, and are included in R&D expense. In early February 2023, Bold received confirmation that the government had approved a $175,000 grant and would make an electronic transfer to the company's account.

Employee termination

On December 4, 2022, Frieda Gore, a salesperson, was terminated due to work performance issues based on her manager's evaluations. Frieda had complained loudly and often about the low base salary and the company changing its sales commissions, effective for 2022, to be based on CM rather than on gross sales. She stated that she was voicing what all the salespeople felt about this policy change and was being singled out. On reviewing her work, Frieda's manager found she had overpaid customers for rebates and volume discounts over the past seven months. Frieda was paid $80,000 in severance, which complies with Bold's policy and industry practice. On receiving the cheque, Frieda indicated she was unhappy with the settlement and argued that she had not previously been told about any performance issues. However, the cheque was cashed on December 8, 2022.

On January 28, 2023, Bold received notice that Frieda had filed a lawsuit demanding more severance, saying that the company's human resources policies had not been properly followed, by not giving her notice of performance issues. Frieda's lawyer demanded damages and severance totalling an additional $230,000. Bold's lawyers have advised that this lawsuit will likely be settled for an amount between $50,000 and $100,000, in addition to the severance previously paid.

ASSURANCE ROLE
ADDITIONAL INFORMATION

APPENDIX V – ASSURANCE
ADDITIONAL INFORMATION

Meals 2 Go Inc. Transaction

On November 12, 2022, Bold acquired used manufacturing equipment from Meals 2 Go Inc. (M2G), a company that manufactures frozen, ready-to-eat meals, for $100,000. Treadstone owns 40% of M2G. On M2G's books, the equipment had an original cost of $350,000 and net carrying value of $140,000 on the day of the transaction. An independent appraiser valued the equipment at $150,000. Bold recorded the following journal entry on the transaction date:

	Dr.	Cr.
Dr. PP&E – manufacturing equipment	$100,000	
Cr. Cash		$100,000

Notes on Changes at Bold

IT: In June 2022, the IT manager went on sick leave and was not replaced. As a result, there were sometimes delays in removing terminated employees from Bold's systems.

Sales: During 2022, Juliette had to spend more time visiting customers and renegotiating the larger sales contracts, and less time in the office. To save time, the salespeople negotiated customer contracts for sales of up to $20,000. All contracts above that limit require approval by Juliette. In addition, each customer, except for the very large customers, has been assigned to a specific salesperson responsible for negotiating prices and approving rebates, volume discounts, and credits. Salespeople were given targets for 2022 related to total units sold and number of new customers. If targets are met or exceeded, the salespeople will earn bonuses.

Financing: In February 2023, Juliette began discussions with a new lender about obtaining additional financing for Bold, to invest in automation. The lender requires Bold's audited December 31, 2022, financial statements, to determine the amount and terms of the loan.

APPENDIX V – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

Purchases and Payables Process

For expenditures not related to inventory purchases and payroll (such as capital assets, repairs and maintenance, professional services, administrative expenses, etc.), Juliette, Simon, the controller, or any department manager are authorized to make purchases. A purchase is initiated by one of the above mentioned individuals (the “purchaser”) calling the supplier. Once they agree on the price, quantity, and delivery date, the purchaser sends a confirmation email to the supplier after the conversation. The company has found this to be the most efficient process since the department managers have the best idea of what is needed and when.

Once the goods are delivered or the services are provided, the purchaser signs the supplier invoice to indicate that the goods/services have been received. The signed supplier invoice is then sent to accounts payable (AP). An AP clerk stamps the invoice and initials that the calculations, prices, and taxes have all been checked. If there is a contract in place for the goods/services, the prices and quantities are matched with the contract by the AP clerk. If there are any discrepancies between the contract and the invoice, the AP clerk informs the controller. The controller discusses them with the purchaser and makes any changes required. The controller notes the general ledger account codes on the invoice, and initials approval of the payment. The AP clerk then enters the supplier invoice into the system and sets a date for the payment within 30 days of the invoice date. Payment can either be done by cheque or electronic funds transfer (EFT). If there are discounts for early payment available, the AP clerk makes note of the discount payment date in their calendar. One day prior to the discount payment date, the AP clerk changes the payment date, and the payment is made by EFT on that day.

When the prenumbered cheque is printed, the AP clerk matches the supplier invoice (with all supporting documentation) to the cheque. Cheques require two signatures: one from Juliette or Simon, and a second one from the controller. Each cheque signer reviews the supporting documentation and initials the documents, indicating that they completed their review. The signed cheque is then sent to the supplier.

For EFTs, a list of upcoming payments is printed from the computer. To authorize these EFTs, this list must also have two signatures, the same ones as required for cheques issued. Each approver receives the list of payments and the related invoices and supporting documentation. The supporting documentation must be initialled as having been reviewed and approved (similar to the cheque process above). The AP clerk then authorizes the electronic payments in the system.

APPENDIX V – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

Equipment Subledger Report – Data Sample

Bold's policy is to capitalize equipment that exceeds the threshold of $3,000.

Report as at December 31, 2022:

Asset ID	Classification	Original Cost $	Accumulated Amortization $	Net Carrying Amount $	Months in Service	Estimated Residual Value $	Original Useful Life in Months	Month/ Year of Disposal	2022 Additions $	2022 Amortization $
MP2352	Manufact.	75,000	4,640	70,360	8	5,400	120		75,000	4,640
CM9001	Computers	15,000	12,500	2,500	40	0	48			3,756
CM8010	Computers	5,300	4,417	883	30	0	36			1,764
OF5681	Office	1,600	89	1,511	2	0	36		1,600	89
MP2225	Manufact.	9,800	919	8,881	9	0	96		9,800	919
MP2399	Manufact.	25,700	17,401	8,299	65	0	96			0
OF2034	Office	4,800	3,400	1,400	34	0	48			1,200
OF3229	Office	248,900	10,281	238,619	2	2,150	48		248,900	10,281
MP1990	Manufact.	89,500	65,188	12,325	105	15,000	120			7,452
MP8119	Manufact.	108,000	49,600	58,400	64	15,000	120			9,300
CM7003	Computers	84,700	13,783	70,917	8	2,000	48		84,700	13,783
CM6189	Computers	32,800	10,761	22,039	13	3,000	36			9,936
OF0092	Office	547,500	54,600	492,900	6	1,500	60		547,500	54,600
MP8111	Manufact.	289,400	82,425	206,975	28	6,800	96			35,328
MP0047	Manufact.	327,500	327,500	0	120	0	108			36,384
MP1615	Manufact.	758,000	510,928	247,072	82	10,300	120			74,772
MP3466	Manufact.	549,000	44,250	504,750	9	18,000	108		549,000	44,250

APPENDIX V – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

Equipment Subledger Report – Data Sample (continued)

Asset ID	Classification	Original Cost $	Accumulated Amortization $	Net Carrying Amount $	Months in Service	Estimated Residual Value $	Original Useful Life in Months	Month/ Year of Disposal	2022 Additions $	2022 Amortization $
OF2556	Office	57,800	12,225	45,575	15	8,900	60			9,780
CM3118	Computers	3,500	2,410	1,090	7	0	36		3,500	2,410
MP3209	Manufact.	74,500	0	74,500	10	0	72		74,500	0
MP6664	Manufact.	2,032,600	24,198	2,008,402	1	0	84			24,198
MP6900	Manufact.	15,700	2,944	12,756	18	0	96			1,968
OF2889	Office	18,400	8,178	10,222	16	0	36			6,132
OF1020	Office	19,300	3,756	15,544	8	2,400	36		19,300	3,756
MP3880	Manufact.	3,710	232	3,478	6	0	96		3,710	232
CM2999	Computers	7,490	4,992	2,498	30	1,500	36			1,992
OF1009	Office	6,840	2,113	4,727	16	500	48			1,584
MP6733	Manufact.	5,700	570	5,130	6	0	60	Jun. 2022		570
OF5741	Office	12,400	6,767	5,633	29	1,200	48			2,796
CM3499	Computers	9,150	5,053	4,097	33	1,800	48			1,836
MP5551	Manufact.	10,600	4,625	5,975	37	1,600	72			1,500
MP6545	Manufact.	130,760	66,742	64,018	49	0	96			16,344
MP8008	Manufact.	1,375,200	68,760	1,306,440	6	0	120		1,375,200	68,760
MP7027	Manufact.	41,800	5,594	36,206	19	6,470	120			3,528
OF2779	Office	16,230	14,607	1,623	54	0	60	Jan. 2022		3,246
CM5487	Computers	10,650	7,292	3,358	40	1,900	48			2,184
CM1773	Computers	8,710	12,339	(3,629)	51	0	36			2,904

APPENDIX V – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

Equipment Subledger Report – Data Sample (continued)

Asset ID	Classification	Original Cost $	Accumulated Amortization $	Net Carrying Amount $	Months in Service	Estimated Residual Value $	Original Useful Life in Months	Month/ Year of Disposal	2022 Additions $	2022 Amortization $
OF8115	Office	48,180	4,588	43,592	6	2,300	60			4,588
OF3200	Office	62,300	56,070	6,230	54	0	60			12,456
CM9211	Computers	6,840	5,700	1,140	40	0	48			1,716
OF2933	Office	3,950	988	2,962	12	0	48		3,950	988
MA3288	Manufact.	27,820	8,862	18,958	21	2,500	60			5,064
CM9003	Computers	14,820	9,263	5,557	30	0	48			3,708
CM9004	Computers	13,990	6,296	7,694	54	0	120			1,404
MP2225	Manufact.	14,700	2,573	12,127	21	0	120			1,476
OF3343	Office	6,510	326	6,184	3	0	60			326
OF3855	Office	21,600	15,833	5,767	40	2,600	48			4,752
MP4545	Manufact.	35,780	30,411	5,369	70	4,500	72			5,208
MP8033	Manufact.	12,700	12,095	605	80	0	84			1,812

APPENDIX V – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

Gretta Acquisition – Regulatory Requirements

The acquisition of Gretta is expected to occur in late April 2023. Gretta operates 10 food trucks throughout Manitoba that specialize in vegan foods. This acquisition provides Bold with another distribution channel and the opportunity to understand consumers' preferences and test new products.

To operate their food trucks, Gretta must comply with Manitoba's Mobile Food Handling Establishments Regulations. The following is an excerpt of the relevant regulations:

Reg 4.5.7 It is the responsibility of the operator of a Mobile Food Service Establishment (MFSE) to ensure that all employees are aware of the requirements and guidelines of the Mobile Food Handling Establishments Regulations, and acknowledge this at least annually.

Reg 4.6.2 MFSE employees are to be trained in the proper handling and preparation of food to ensure food safety. This training is to be completed every six months. There are standardized videos to be used by MFSEs to facilitate this training.

Reg 4.8.3 At all times, at least one staff member preparing food in the MFSE must hold a valid Food Handler Certificate.

Reg 5.1.3 Refrigerators must be maintained between -2°C and +2°C and freezers must be maintained at a temperature at or below -18°C. Temperatures are to be checked every 12 hours. Any deviations are to be immediately followed up and supporting documentation completed that indicates what was done.

Reg 7.2.1 If items are sold as "vegan," the ingredients must be sourced from approved vegan vendors.

APPENDIX V – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

2023 Draft Internal Audit Plan

Prepared by: Junior Associate

The following factors were considered in developing the internal audit plan:

- Internal audit will assess expenses and related processes that have not been tested in the last five years.
- Internal audit will review divisions and departments where there has been no change in senior management and little staff turnover in 2022.
- Internal audit will only test expense accounts that are higher than 2022 materiality.
- Expenses and revenues for the turk'y division will not be tested, since that division was acquired within the past five years.

Areas to be tested in 2023:

Audit Area	Sample Size/Selection
Revenue	10 contracts with new customers in the chick'n division
Repairs and maintenance	Senior manager of each department to select 10 transactions
Software licence agreements and lease agreements	One software licence agreement that was renewed in 2023 *Note: Bold has 16 agreements for leases and licences, 2 of which are scheduled to renew in 2023.*

FINANCE ROLE ADDITIONAL INFORMATION

APPENDIX V – FINANCE
ADDITIONAL INFORMATION

Additional Information on Bold

- Treadstone provided consulting services to Bold, for which it charged $100 per hour for 1,000 hours of work in 2022. The current market rate for these services is $250 per hour.
- Bold had some abnormal waste due to malfunctioning equipment, which increased cost of goods sold by 1% of total revenues.
- A software upgrade was needed due to a crash. The update and related training cost $446,500. Normal upgrades and related training would be $200,000 annually.
- Bold has patents related to internally-developed proprietary technologies that are not currently used in production. The fair value of these patents is $1.4 million, and selling costs would be 10% of the proceeds. The total cost to develop these patents was $35,000, and was incurred over several years prior to 2022.
- Annual sustainable capital investments, net of tax shield, is $2.6 million. The present value of the tax shield on Bold's existing assets is $1.376 million.
- Bold's weighted average cost of capital is 12% and the long-term growth rate of the industry is expected to be 2%. Bold's income tax rate is 27%.

APPENDIX V – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Chick'n Burger Machine

The existing machine is five years old and has a fair value of $320,000. The new machine, that will automate the production process, will cost $1.4 million, inclusive of initial setup costs. Both assets would be class 8 assets and eligible for 1.5 times the normal CCA rate in the year of acquisition. The new machine requires different raw materials, which will result in an initial increase in net working capital of $120,000.

The existing machine produces 820,000 units annually. The cash inflow generated per unit produced is $2.10. The new machine is set up based on Bold's specifications, and Bold expects to produce the following annual volumes:

2023	960,000
2024	1,020,000
2025 and thereafter	1,080,000

The manufacturer estimates the new machine will result in annual labour savings of $190,000 due to the high level of automation. Bold does not have other roles to redeploy these employees to.

Bold's staff maintains and repairs the existing machine with spare parts on hand. The average annual maintenance and electricity costs for the existing machine is $380,000.

The manufacturer of the new machine requires that Bold commit to an annual maintenance contract and warranty that will cost $620,000 annually. This contract covers all service and repairs (including all required parts), unless the manufacturer considers that the damage is due to negligence or was inflicted deliberately. The manufacturer guarantees their staff will be on site to inspect the equipment within 72 hours of a service call, provided that inclement weather is not a concern.

For every 3 million units produced, the new machine will require recalibration (performed by the manufacturer), at a cost of $250,000. The recalibration will result in downtime of between two and seven days.

The new machine is expected to last for five years, at which time the manufacturer believes it will be worth $970,000. If Bold chooses to continue to use the existing machine, it will be able to sell the machine for $40,000 at the end of five years.

APPENDIX V – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Quarterly Forecast (in thousands of dollars)

Sales/Expenses	Q2 2023	Q3 2023	Q4 2023
Sales	$ 27,400	$ 28,600	$ 30,400
Cost of goods sold	$ 19,100	$ 21,400	$ 23,600
Other expenses	$ 6,500	$ 7,000	$ 7,500
Capital expenditures	$ 2,400	$ 0	$ 0

Opening Balances	Q2 2023	Q3 2023	Q4 2023
Cash	$ 1,400		
Accounts receivable	$ 10,207		
Accounts payable	$ 12,200		

The company uses a 90-day assumption for each quarter.

During 2022, the company changed its credit terms so that, effective 2023, 40% of its customers have credit terms of 30 days and 60% have credit terms of 45 days.

Bold's production process takes an average of 50 days from receipt of raw materials to a packaged product, which is slower than the industry average of 45 days. Due to Bold's production capacity constraints, Bold does not typically keep finished products on hand for very long.

Bold's suppliers for its cost of goods sold have 60-day credit terms on average. Other expenses are paid as incurred.

Industry Ratios

Ratio	Industry Average
Days in receivables	30 days
Days in inventory	50 days
Days in payables (Note 1)	60 days

Note 1: Days in payables is based on cost of goods sold only.

APPENDIX V – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Planet Earth Ethical Fund Financing Proposal

Planet Earth Ethical Fund is an investment fund that provides financing of up to $10 million in the form of a convertible bond to companies whose products and services help to improve the environment in some manner.

The loan proceeds must be used in sustainability projects, which includes the production of plant-based foods, since it has a reduced carbon footprint, land use, and water use compared to the production of real meat. Bold expects to invest the funds in projects that will generate an annual return of 10% on the invested capital. Bold has confirmed that its proposed use of the funds is eligible.

The five-year loan will bear interest at 5% and be convertible into common shares at the holder's option, at a price of $570 per share. Interest will be payable annually, on the anniversary date. Bold must submit annual audited financial statements. No dividends can be paid while the loan is outstanding. Periodically, fund representatives will visit Bold's manufacturing facilities to review their operations and report on their progress.

APPENDIX V – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

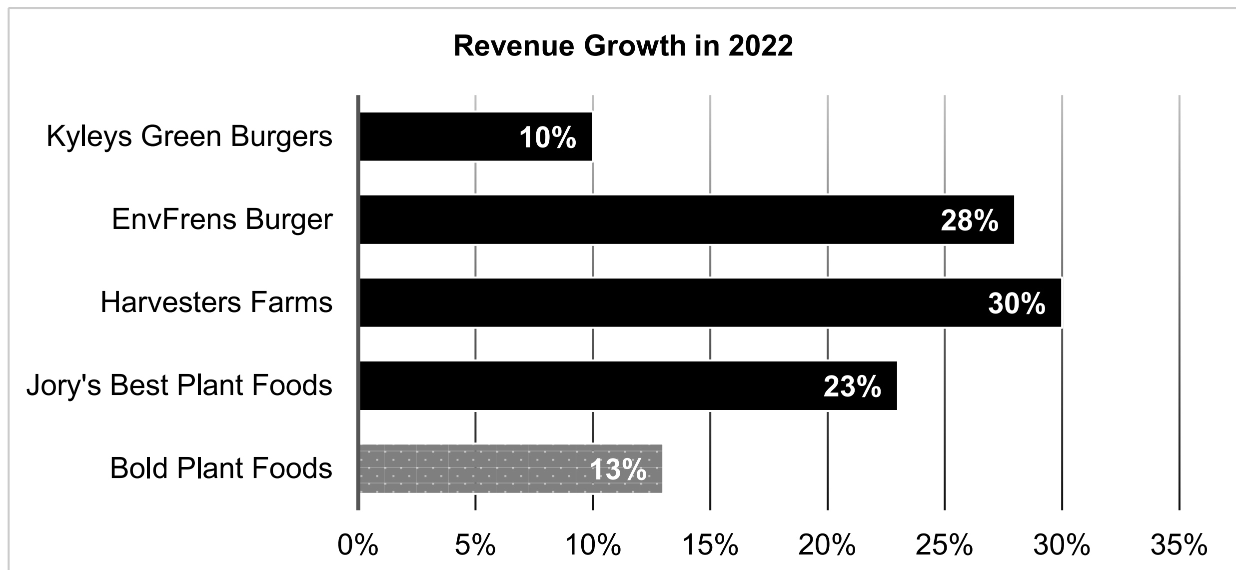
Industry Data

Treadstone has identified four companies they consider most comparable to Bold:

- **Kyleys Green Burgers** (Kyleys) is a Canadian company that specializes in chick'n burgers made using only organic ingredients. Kyleys distributes its products exclusively in Canada.
- **EnvFrens Burger** (EnvFrens) is a North American company that produces and sells chick'n, turk'y, and plant-based beef and salmon burgers in the United States and Canada. EnvFrens is highly acquisitive, having made three acquisitions in 2022 to expand their product lines.
- **Harvesters Farms** (Harvesters) is a North American company (headquartered in Oklahoma) that grows a variety of soy and grain crops, which it uses to produce chick'n products such as burgers, nuggets, and strips.
- **Jory's Best Plant Foods** (Jory's) is a Canadian company that produces and sells a variety of chick'n and plant-based beef products in Canada.

Revenue growth

The following graph was prepared using data collected by an independent market research company on Bold and its four competitors above. The data was gathered directly from surveys completed by competitors and various industry reports. U.S. dollar figures were translated to Canadian dollars prior to any calculations.

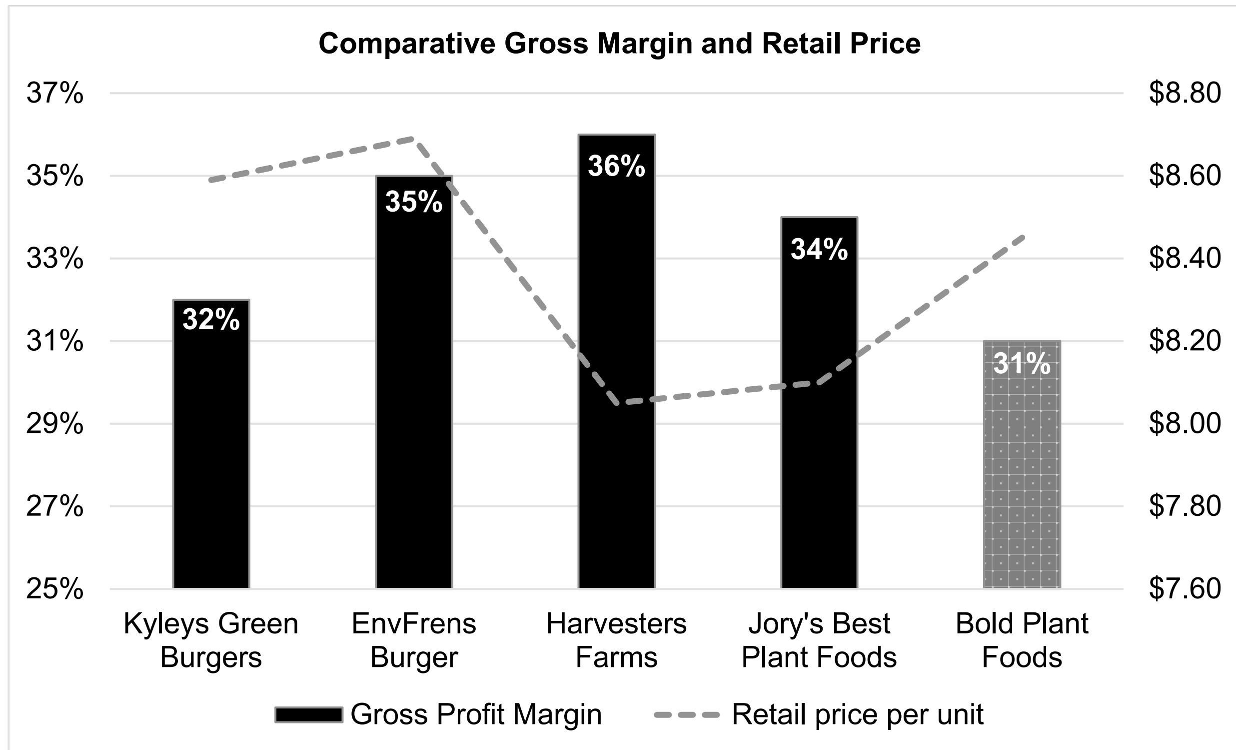


APPENDIX V – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Industry Data (continued)

Comparative gross margin and retail price

The following information was gathered by the Association of Plant-Based Meat Product Processors of Canada and the United States Alternative Meat Product Alliance. The information was gathered from their members based on surveys completed by each company; each company provided their 2022 revenue and gross margin figures, as well as retail price per unit sold in 2022.



APPENDIX V – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Extracts from Shareholders' Agreement

Agreement between Treadstone (the Preferred Shareholder) and Simon and Juliette (the Common Shareholders) (collectively, the Shareholders), effective March 15, 2019

Amount invested – The preferred shares have a 3% cumulative dividend. The shares are voting and fully participating with the common shares for dividends declared. Each preferred share and each common share has one vote. On dissolution, the Preferred Shareholder will be paid out $8 million prior to the Common Shareholders being paid and will be fully participating and receive a pro rata share of any further shareholder payments.

The preferred shares are protected against equity dilution if subsequent issuances of common shares occur at a price below fair value. In this case, Treadstone has the right to purchase enough shares at the same issue price to maintain its percentage of equity owned (currently at 60%).

Directors – Treadstone has the right to nominate two directors to Bold's four-member board of directors.

Restrictions on transfer or sale of preferred or common shares – Shareholders will not directly or indirectly sell, assign, transfer, give, or otherwise dispose of any shares, except in accordance with the provisions of this Agreement or with the prior written consent of all of the Shareholders.

Shot gun provision – If any of the Shareholders has a dispute that cannot be resolved, they may initiate a forced buy or sell (i.e., the Shot Gun Provision). If initiated, the remaining shareholders have 15 business days to respond.

Right of first refusal – Shareholders are prohibited from selling, transferring, or otherwise disposing of their shares to new investors unless the shares are first offered at no more than fair market value (as determined by an independent valuator) to the other Shareholders. If this offer is not accepted by the existing Shareholders within 90 days, the shares may be offered to any other person.

PERFORMANCE MANAGEMENT ROLE ADDITIONAL INFORMATION

APPENDIX V – PERFORMANCE MANAGEMENT ADDITIONAL INFORMATION

Additional Industry and Company Information

As input and processing costs are high, operational efficiency due to technology adoption and improved processes is a key success factor in this industry. Successful competitors sell to the large grocery retailers and fast-food service companies to achieve market penetration and consumer acceptance. Selling product in large fast-food restaurants provides an opportunity for consumer testing of new products. The grocery retailers and national fast food service chains purchase primarily on price, provided the quality is similar. They encourage long-term relationships and want just-in-time delivery.

The established food manufacturers have successfully entered the plant-based product segment, using their existing distribution channels and access to capital. They have developed successful brands and products, to create a clear market position and name recognition. High advertising costs and brand loyalty represent strong barriers to entry. Companies must constantly introduce new products, which requires R&D spending to attract and retain experienced food scientists. Successful innovative products must be flavourful, be additive-free, and come from locally sourced crops. Bold has a highly experienced R&D team, and the department generates at least one new patent per year.

Consumers are driven to purchase meat-alternative products by their dietary choices and concerns about the environment. Consumers purchase products based on attributes related to taste, texture, look, and feel. To ensure final product consistency, ideally the manufacturer would source the protein mixture from a single supplier. Quality control testing is important, and Bold’s products must achieve a quality score of 95% prior to shipping. Other trends in the industry include the use of raw inputs that are as fresh as possible, traceability from source to sale, and consistency of temperature during shipment and storage.

APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Pea Protein Suppliers

Bold uses 26,000 tonnes of pea protein annually.

AgroPea is locally owned by a group of farmers and has contractual arrangements with local Manitoba farmers to supply the pea crops. AgroPea's new facility is highly automated, allowing for tight control and oversight of the product as it moves through production and warehousing, with tracking of the product from source. The company also conducts its own lab testing on site, which we expect to result in minimal goods being rejected. AgroPea will store the processed pea protein in its climate-controlled warehouse and ship just-in-time to Bold, with a three-day maximum time lag on delivery. AgroPea is located two hours from Bold. A five-year contract is proposed whereby AgroPea will supply all of Bold's annual pea protein requirement at a price of $530 per tonne.

Bold currently uses two pea protein suppliers. ManiPea Limited (ManiPea) is located in Manitoba, about two hours away, and has been a supplier of Bold's since Bold started business. As per the contract, ManiPea ships pea protein monthly on a schedule that is planned and agreed to at the beginning of each year. Bold holds an average of 15 days of pea protein inventory purchased from this supplier. ManiPea's production is semi-automated but does not provide product tracking. The contract expires in two years, and a penalty of two months' worth of purchases will be charged to Bold if the contract is terminated early. The contractual price is $450 per tonne, but this price is revised if the market price of peas increases above 15%. About 70% of Bold's annual supply comes from this supplier.

The second supplier, Narvin Farms Corp. (NFC), operates in the United States. Two years ago, when the Canadian pea crop was poor due to drought conditions, Bold contracted with NFC. In 2022, about 30% of Bold's annual supply comes from NFC. The contract price is US$360 per tonne, and the current exchange rate is 1 USD = 1.25 CAD. NFC ships every two months upon receipt of a purchase order detailing the quantity required, and Bold holds an average of 30 days of pea protein inventory purchased from this supplier. It can take one to two weeks for the product to reach Bold's plant. The contract is for a minimum annual quantity, which can be exceeded as needed. A penalty of two months' worth of purchases will be charged to Bold if the contract is terminated early, and the contract expires in three years. NFC uses a fully-automated production system but provides no tracking.

Under all contracts, the contract price includes transportation to Bold's manufacturing plant.

Although ManiPea and NFC perform some preliminary grading, Bold does its own quality control on receipt of the pea proteins. On average, about 5% of the goods are rejected because they do not meet Bold's standards. The cost of this quality control, including the rejected goods, is $42 per tonne. Monthly inventory storage cost for this product is $60 per tonne.

APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Just-in-time Delivery

The proposed 12-month contract is with a national grocery retailer. The total sales revenue of $5.0 million is for 21,500 boxes of frozen product, which has a total production cost of $2.6 million. Bold has the capacity to produce this volume. The customer will notify Bold of the volume and delivery dates as needed, with three days' notice. Bold will be responsible for shipping to the exact retail location in the quantities requested, and on the dates required. Bold will ship 60% of the boxes to locations in Eastern Canada, and 40% to Western Canada. If a delivery is late, a penalty will be imposed for every full day the delivery is delayed.

Currently, Bold uses a national shipping company that has always been reliable in the past. They have estimated the price at $22 per box to ship to Eastern Canada, and $25 to Western Canada. A fuel surcharge will be added, which would currently total $60,000 per year, although this will depend on the diesel price at the time of actual shipment. Since Bold wants to ensure that the product will arrive on time, it will store inventories at local storage facilities close to the various retail locations for an average of one month. A storage company has estimated that storage costs for up to one month will be $12 per box, and packing and handling out of storage will be $8.80 per box, plus a flat rate of $300 per month. Finally, Bold's current inventory management system is not able to manage multiple inventory sites, so a one-time upgrade to the inventory system will be needed, at a cost of $960,000.

FFD is a logistics company that specializes in shipping and warehousing fresh and frozen foods. Its delivery trucks have all been converted to electric vehicles. For a set price of $60 per box for the first 15,000 boxes, and $50 per box thereafter, FFD will ship, store, pack, and handle the inventory items. The company also has full inventory tracking capabilities, as well as online access for customers to track their inventories. FFD is willing to provide a quote on all of Bold's shipping needs. If a long-term contract could be negotiated, the quoted cost per unit could be reduced by at least 10%.

APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Transfer Pricing

All Bold divisions are treated as profit centres. The same transfer price for the protein mixture is charged to the chick'n division and the turk'y division and is set at the beginning of the year, based on the full absorption cost plus 15%, and this has been the case for many years.

All the protein mixture produced is used internally, and production currently operates at 80% of capacity. The chick'n division and the turk'y division purchase their protein mixture exclusively from the protein mixture division. A comparable generic product exists on the market, but it cannot be used by Bold as is. The proprietary technology and recipe developed by Simon would require transformations to the pea protein mixture if it were bought on the market, to get to the same look and taste that is common to all Bold products. The current market price of the generic pea protein mixture is $5.90 per unit. An additional cost, estimated at $3.50 per unit, would need to be incurred to transform the generic pea protein mixture if it were purchased externally by the other two divisions, and it still would not achieve the same quality and taste as the mixture produced internally.

The manager of the turk'y division, Sandra, has voiced concerns that the transfer price she has to pay to the protein mixture division is too high. Her department's profit margins are significantly lower than the other divisions because the selling price of her product, currently $55.00, has been reduced to be more competitive, and because her department must further process the pea mixture.

All divisions are expected to generate a gross margin of 20%, and the divisional manager's compensation scheme includes incentives to reach this target.

Additional information (per unit):

Item	Protein Mixture Division	Turk'y Division
Direct materials	$ 2.50	$ 6.86 *
Direct labour	$ 1.30	$ 7.10
Variable overhead	$ 1.15	$ 8.54
Fixed overhead	$ 3.80	$13.00

* Excludes the cost of the protein mixture required

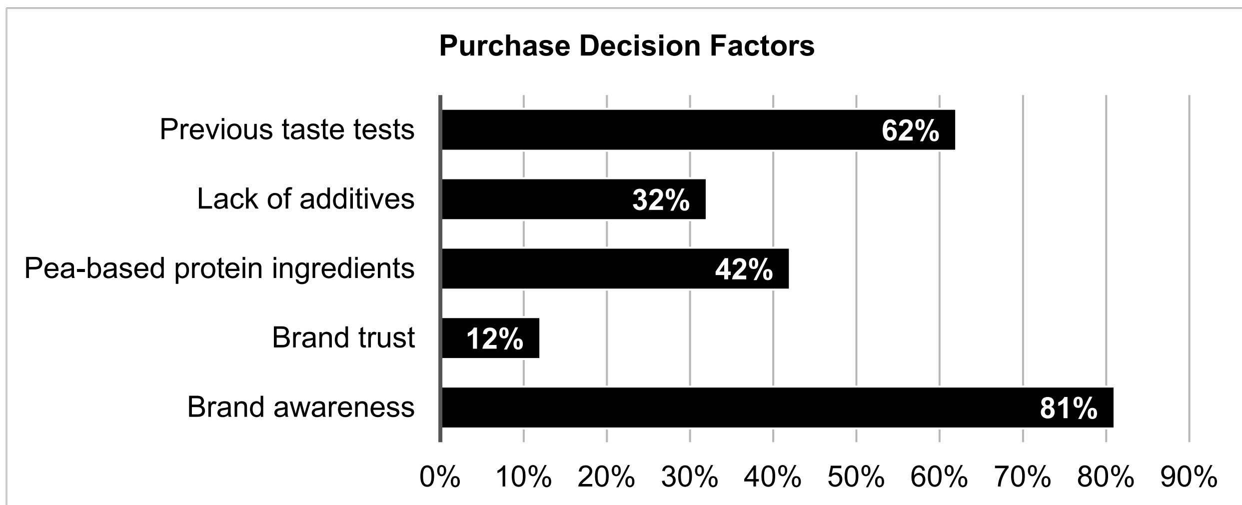
APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

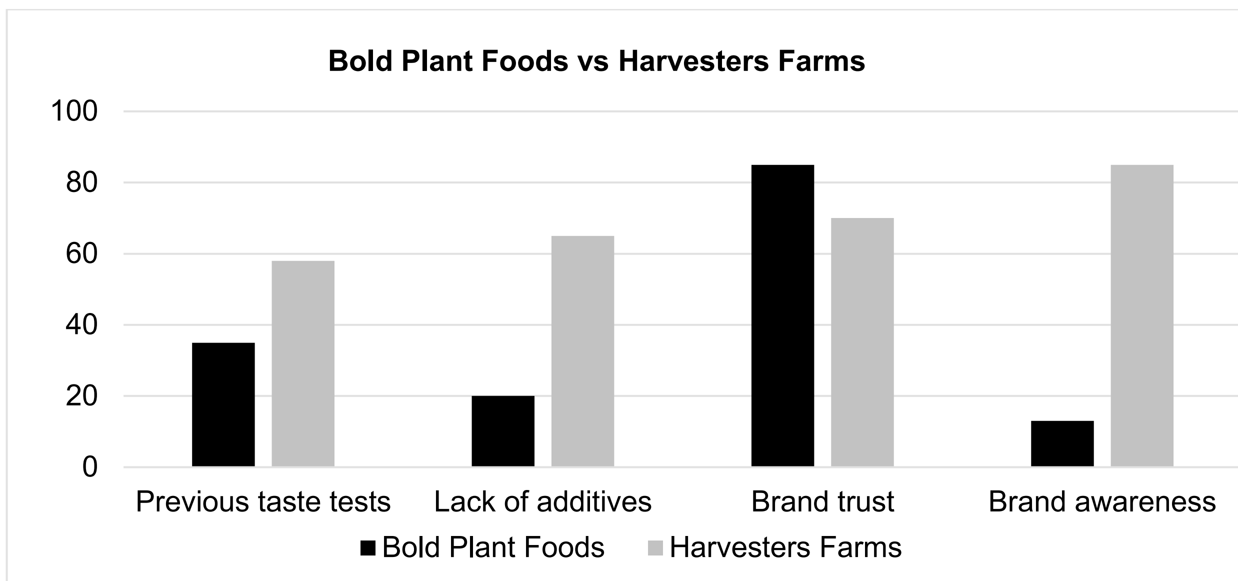
Survey Data

Bold's strategy is to sell a premium quality-tasting product to as many end consumers as possible. An independent association recently conducted a market survey of chick'n burger consumers. From the consumers' perspective, the six products tested have similar quality in taste and feel. Harvesters Farms is the leading competitor in the segment, with the highest market share and strongest brand awareness.

<u>Purchase decision factors</u>

Consumers were asked to identify factors in their purchase decision for in-home consumption. Here are the top five factors identified:



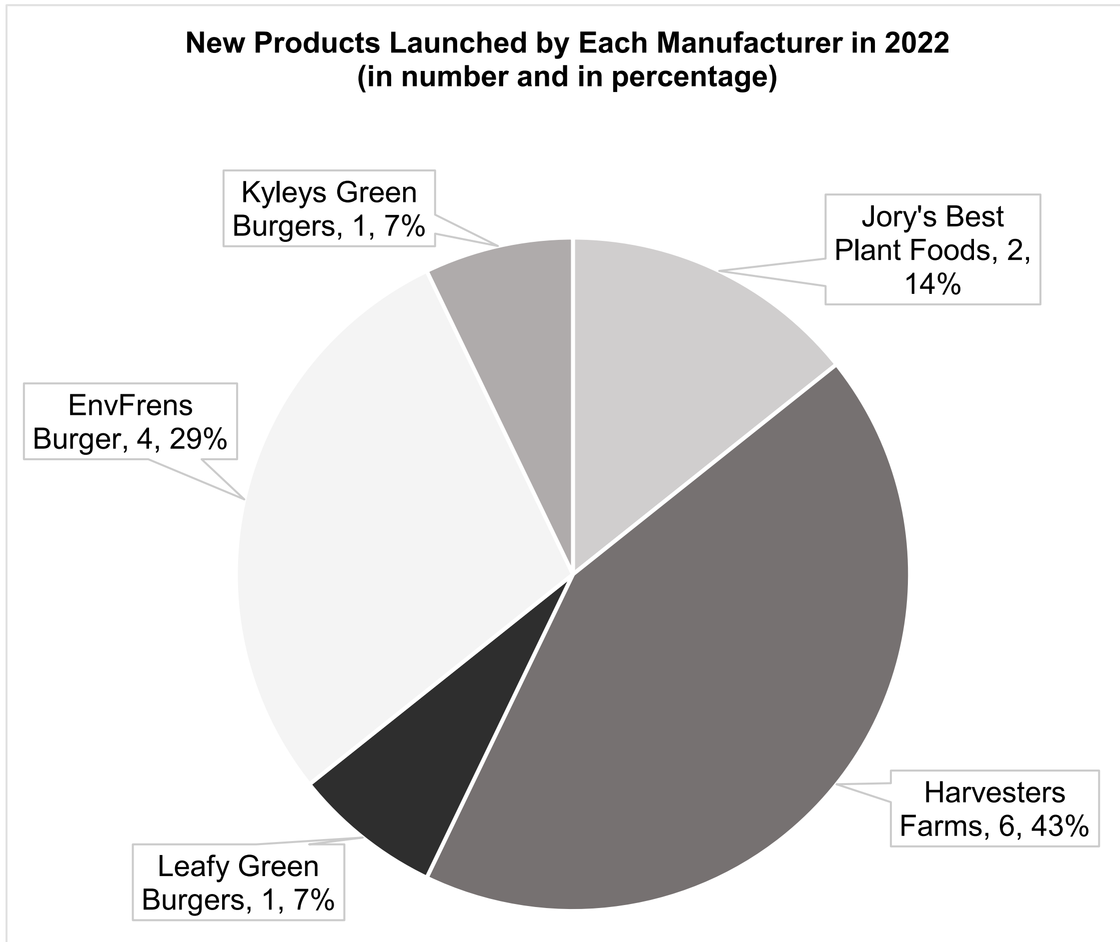


A higher score indicates that the brand better matches the consumers' wants.

APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Survey Data (continued)

Number of new products

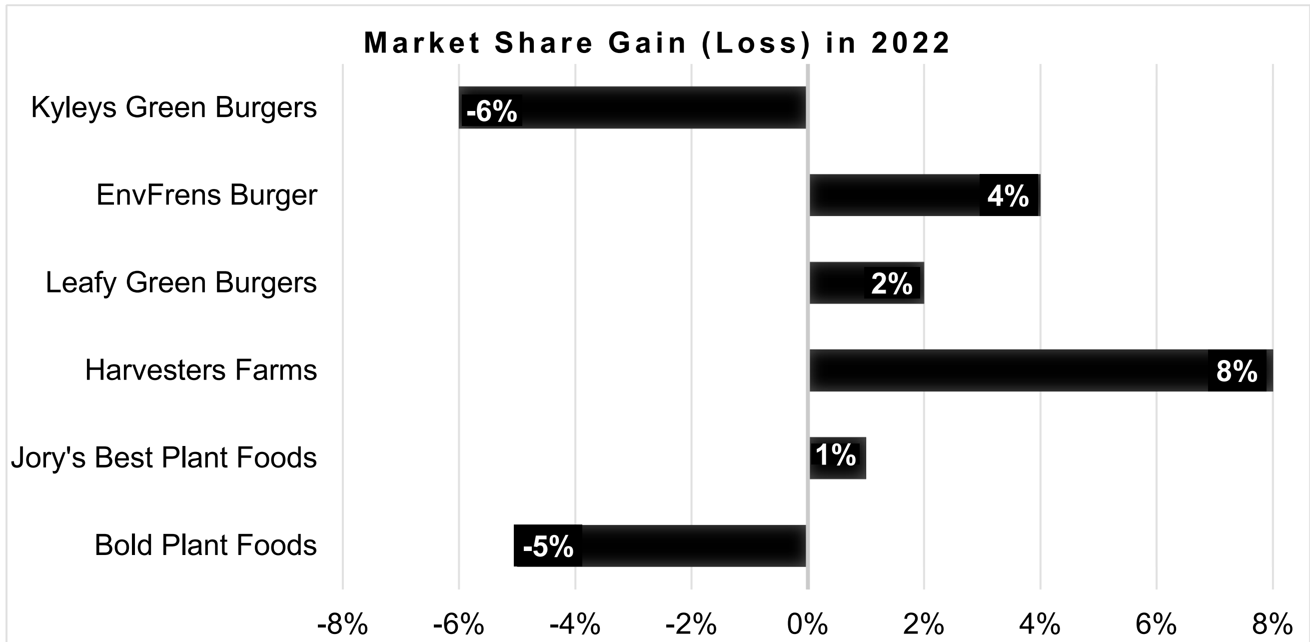


Note: Bold has launched no new products in 2022.

APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Survey Data (continued)

<u>Market share gain/loss</u>



APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Salesperson Compensation

Each customer is assigned to a specific salesperson, whose responsibility is to manage the account and negotiate contracts. Currently, Bold has 1,000 customers, and the median annual sales is $120,000 per customer.

For 2022, Bold changed compensation for salespeople, and their compensation now has three components: 1) an annual base salary of $30,000; 2) a sales commission based on 20% of CM generated by the salesperson; and 3) a bonus based on meeting or exceeding certain targets. Salespeople were given 2022 targets related to volume of units sold and number of new customers. The salespeople have no input into these targets, and in 2022, only 20% of them achieved the targets. The salespeople have complained that their compensation is unfair and the changes made in 2022 have resulted in less take-home pay than in previous years. They also feel they have not received training comparable to other departments.

The following is additional information on employee training:

APPENDIX V – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Treadstone Goals and Objectives

Treadstone manages a fund of private investments in companies that operate in environmentally-friendly industries, in that they sell products that reduce the carbon footprint and improve land and water use. In making its investments, Treadstone tries to choose products and services that may realize synergies across its holdings. Treadstone has investments in plant-based dairy food processors, a logistics company (FFD Inc.), a food truck company, and vegetable farms throughout North America. Treadstone's goal is to invest in companies with expected annual industry growth of at least 10%, and in which operational improvements can be made. When deciding whether to retain an investment or divest, Treadstone considers profitability by product, operating cash flows, and return on invested capital (currently 9% for this industry).

TAXATION ROLE
ADDITIONAL INFORMATION

APPENDIX V – TAXATION
ADDITIONAL INFORMATION

Depreciable Property

Class	UCC Balance December 31, 2021	Assets Purchased 2022
Class 1	$ 4,012,000	$ 225,000
Class 8	$ 652,000	$ 1,180,000
Class 10	$ 77,000	$ 0
Class 14.1	$ 2,198,000	$ 0
Class 50	$ 50,000	$ 210,000
Class 53	$ 125,000	$ 4,460,000
Total	$ 7,114,000	$ 6,075,000

Included in the Class 53 purchases is equipment with a cost of $980,000, which was purchased in December 2022 but not installed and tested until January 15, 2023.

In addition to these purchases, the asset retirement obligation was increased by $296,000, which increased the book value of the building by the same amount. None of the asset retirement obligation was discharged during 2022.

Bold also purchased patents for $495,000 on August 1, 2022, which expire in 16 years and are not included in the table above.

During 2022, Class 53 manufacturing equipment was disposed of for gross proceeds of $500,000 and disposal costs of $50,000. The original cost was $640,000, accumulated amortization was $130,000, and a loss on disposal of $60,000 was recorded in the income statement.

All delivery vehicles were disposed of (representing all assets in Class 10). These vehicles had an original cost of $225,000 and accumulated amortization of $113,000 at the time of disposal. The proceeds were $150,000, with no disposition costs, resulting in a $38,000 gain on disposal recorded in the income statement.

APPENDIX V – TAXATION (CONTINUED)
ADDITIONAL INFORMATION

Other Information from the Financial Statements for 2022 (all amounts in Canadian dollars)

Bold had some abnormal product waste due to malfunctioning equipment, which increased the cost of goods sold by $275,000.

Included in selling, general, and administration costs are the following items:
- Meals and entertainment costs of $900,000
- Costs of $960,000 for a software update, including $200,000 for training

U.S.-source net business income totalled $350,000, and U.S. income taxes paid on that income were $95,000 (included in income tax expense).

Accrued liabilities for 2022 include $1.4 million of bonuses accrued under a new bonus plan, which will be paid to the employees on July 31, 2023.

Revenues for the year include $20,000 of interest income earned on Bold's operating bank account.

Bold has paid $220,000 in income tax instalments for 2022. None of Bold's activities qualify for the Scientific Research & Experimental Development (SR&ED) program.

APPENDIX V – TAXATION (CONTINUED)
ADDITIONAL INFORMATION

Treadstone's Investments

Treadstone is a Canadian-controlled private corporation, as are all its investees, including Bold. Below is a summary of Treadstone's investments in various private companies.

Company	Treadstone Ownership of Common Shares
Food Trucks Inc. (Food)	40%
Garden Farms Corp. (Garden)	35%
Planmilk Inc. (Planmilk)	100%

In addition, Food owns 50% of Garden. In all other cases, the remaining shares are owned by unrelated shareholders.

Sarah Derman, Richard's wife, owns 80% of Helo's Restaurants Inc., and Richard owns the remaining 20%.

Intercompany Transaction

Bold is considering a sale of one of its internally-developed patents to Planmilk in March 2023. Bold incurred $125,000 in development costs toward this patent from 2016 to 2020, when the patent was registered. These costs were expensed as incurred. Planmilk has offered to purchase the patent for $210,000, although the fair market value is $260,000. However, since Bold could use the cash and has received no other offers, it is considering accepting.

Automobile

Bold is considering either buying or leasing a new automobile for Juliette to use. An automobile can be leased for $840 per month, including GST. Alternatively, it could be purchased outright for $48,000 (including GST).

Juliette estimates she will drive 50,000 kilometres annually, of which 10,000 would be for personal use.

APPENDIX V – TAXATION (CONTINUED)
ADDITIONAL INFORMATION

Personal Taxes – Juliette

Juliette is 55 years old and a widow. She earned a salary of $250,000 from Bold (CPP of $3,500, including $461 of enhanced contributions, was withheld). She received eligible dividends from other investments, for which the taxable amount is $15,900.

Juliette's daughter, Sophia, attends university full-time. In 2022, Sophia earned employment income of $18,000 (CPP of $855, including $75 of enhanced contributions, and EI of $284 were withheld). She also received scholarship income of $8,000. Juliette paid $12,000 in tuition fees for Sophia. Sophia has agreed to transfer the maximum amount of the tuition credit to Juliette.

Juliette paid private health services plan premiums totalling $3,260. Prescription medications not covered by that insurance totalled $1,480 during 2022. She also paid for Sophia's prescription glasses for $650. Juliette made $18,000 in charitable donations during 2022.

In 2019, Juliette claimed a capital gains deduction of $35,000 on qualified small business corporation shares.

In 2020, Juliette invested in shares of J&K Limited (JKL), a small business corporation, for $100,000. JKL declined significantly in value, and in 2022, Juliette sold these shares for only $20,000.

During 2022, Juliette also sold shares of Riverside Inc. (Riverside) and Fruitsen Inc. (Fruitsen), both publicly-traded companies. The following transactions relate to the shares:

	Riverside		Fruitsen	
Date	**Transaction**	**Price per Share**	**Transaction**	**Price per Share**
Mar 16, 2019	Purchased 5,000 shares	$10.20		
Feb 22, 2020	Purchased 3,000 shares	$12.45		
Aug 23, 2020	10% stock dividend; increased paid-up capital by $2.35 per share			
June 3, 2021			Purchased 2,500 shares	$6.00
Sept 25, 2021	Purchased 2,000 shares	$13.40		
Jan 4, 2022			2-for-1 stock split	
Dec 15, 2022	Sold 4,000 shares	$15.50	Sold 3,000 shares	$3.80

Commissions paid by Juliette on the December 15, 2022, sales were $1,550 for Riverside and $260 for Fruitsen.

DAY 2 ‑ MARKING GUIDE ‑ COMMON
BOLD PLANT FOODS LIMITED (BOLD)

Note: The level of judgment and skill expected of candidates is that of an "entry-level CPA," a CPA entering the profession.

Assessment Opportunity #1 (Common) (Depth and Breadth Opportunity)
The candidate calculates the chick'n nugget product costs using both a weighted average and FIFO method, discusses the advantages and disadvantages of the methods, and recommends which method to use going forward.
The candidate demonstrates competence in Management Accounting.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
3.3.1	Evaluates cost classifications and costing methods for management of ongoing operations	A

CPA Map Enabling Competencies:
5.1.3 Develops and uses knowledge of the organization, industry and stakeholders
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Weighted Average and FIFO Method Calculations

As requested, the product costs for the chick'n nuggets during January have been calculated below, using the weighted average method and the FIFO method.

Weighted Average Method

1. **Compute equivalent units**

	Equivalent Units Direct materials and conversion
Completed and transferred out during January	35,250
Work-in-progress – ending Jan. 31	
Direct materials and conversion costs 12,000 × 80%	9,600
Total equivalent units for January	44,850

2. **Compute the costs to account for**

	Equivalent Units Direct materials and conversion
Work-in-progress – beginning	$ 82,070
Costs added during January	2,005,580
Total costs to account for	$2,087,650
Equivalent units	44,850
Cost per equivalent unit	$46.547

3. **Assigning the costs**

	Equivalent Units Direct materials and conversion
Cost of goods manufactured:	
Direct materials and conversion costs 35,250 × $46.547	$1,640,795
Work-in-progress – ending:	
Direct materials and conversion costs 9,600 × $46.547	446,855
	$2,087,650

First-In-First-Out Method

1. **Compute equivalent units**	**Equivalent Units** Direct materials and conversion
Completed and transferred out during January From beginning work-in-progress:	
Direct materials and conversion costs 3,750 × (100% - 60%)	1,500
Started and finished in the period: 43,500 - 12,000 (ending work-in-progress)	31,500
Work-in-progress – ending Jan. 31: Direct materials and conversion costs 12,000 × 80%	9,600
Total equivalent units for January	42,600

2. **Compute the costs to account for**	**Equivalent Units** Direct materials and conversion
Costs added during January	$2,005,580
Equivalent units	42,600
Cost per equivalent unit	$47.079

3. **Assigning the costs**	**Equivalent units** Direct materials and conversion
Cost of goods manufactured: Completed in January and started in 2022 From work-in-progress beginning	
Costs in beginning inventory	$ 82,070
Costs to complete: Direct materials and conversion costs 1,500 × $47.079	70,619
Started and completed in January 2023: Direct materials and conversion costs 31,500 × $47.079	1,482,999
	1,635,688
Work-in-progress – end of January 2023: Direct materials and conversion costs 9,600 × $47.079	451,962
	$2,087,650

Qualitative Considerations of Using FIFO

The FIFO method separates out the work done on the units in each period, keeping separate the costs attached to the opening work-in-progress (WIP). The weighted average cost method does segregate the work performed in the previous period for the work-in-progress, but includes it in the cost.

The impact of these differences is shown below:

	Weighted Average	FIFO
Cost of goods manufactured for January	$1,640,795	$1,635,688
Cost of WIP – end of January	$446,855	$451,962

As costs are increasing, under FIFO, the ending WIP will have a higher cost, and cost of goods manufactured for January will be lower in comparison to using the weighted average method. This higher cost for the closing WIP under the FIFO method arises because of the higher production costs per unit incurred for January, rather than using a blended unit cost that includes some of December's costs and all of January's costs under the weighted average cost method.

Because the FIFO method matches the costs with the period of production, it is thought to be a better product-costing method, and more reflective of the actual costs incurred for those units produced. However, it is more complicated than the weighted average, as seen in the above calculations. In addition, since the company's raw materials (agricultural produce) are commodities that have volatile prices throughout the year, FIFO can result in profits month over month that fluctuate significantly. If prices consistently increase or decline, the FIFO method shows the impact of the price increase or decrease more quickly.

Recommendation

From Bold's perspective, we know that the various divisions are assessed on monthly profits, which will be impacted by the product costing method used. In addition, we also know that, starting in 2022, commissions are based on contribution margins. Finally, input costs for the pea protein are volatile. Given that profits are used for salespeople compensation and divisional performance assessment, the weighted average costing method would smooth out some of the volatility due to input costs, and provide a potentially fairer and more consistent performance evaluation.

On the other hand, the FIFO method would provide a better reflection of the impact of the price volatility of the inputs on Bold's profits, and would provide a better basis for forward-looking management decisions, such as pricing, production planning, hedging decisions, etc. As the more recent prices are better predictors of future prices, better forward-looking management decisions will be made when using the FIFO method.

We recommend that the company opt for the FIFO method. The disadvantages of this method for divisional or salespeople performance evaluation could be mitigated through the use of other levers, such as the use of a budgeted cost, that would remove the volatility of the input prices, which is out of the control of divisional managers or salespeople.

For Assessment Opportunity #1, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate calculates the chick'n nugget product costs using both the weighted average and FIFO method, or discusses the advantages and disadvantages of the methods.

Competent – The candidate calculates the chick'n nugget product costs using both the weighted average and FIFO method, and discusses the advantages and disadvantages of the methods.

Competent with distinction – The candidate calculates the chick'n nugget product costs using both the weighted average and FIFO method, discusses the advantages and disadvantages of the methods, and recommends which method to use going forward, considering the needs of Bold.

Assessment Opportunity #2 (Common) (Depth and Breadth Opportunity)

The candidate prepares a break-even analysis for the new product, with and without Pythagoras.

The candidate demonstrates competence in Management Accounting.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
3.5.1	Performs sensitivity analysis	A
3.5.2	Evaluates sustainable profit maximization and capacity management performance	A

CPA Map Enabling Competencies:
5.1.3 Develops and uses knowledge of the organization, industry and stakeholders
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Break-even Analysis – Chick'n Strips

The company has asked for an annual break-even analysis for a new product, chick'n strips, with and without Pythagoras. The following is the break-even analysis.

	Without Pythagoras Production	With Pythagoras Production
Selling price per unit	$35.00	$35.00
Variable costs:		
Direct materials	$ 8.00	$ 7.00
Direct labour		
0.60 hr × $20	12.00	
0.25 hr × $20		5.00
Variable overhead		
0.60 hr × $9.80	5.88	
0.25 hr × $9.80		2.45
Variable maintenance on Pythagoras		2.50
Total variable costs before commissions	25.88	16.95
Contribution margin before commissions	9.12	18.05
Less commission on the contribution margin (20%)	(1.82)	(3.61)
Net contribution margin	$ 7.30	$14.44

Fixed costs:		
Manufacturing overhead	$ 750,000	$ 750,000
Lease payments for Pythagoras		1,120,000
Maintenance on Pythagoras		460,000
Additional electricity for Pythagoras		390,000
Waste disposal savings		(65,000)
Salaries and marketing	680,000	680,000
Total fixed costs	$1,430,000	$3,335,000
Break-even units (fixed cost ÷ contribution margin)	195,890	230,956
Indifference point:		
Difference in fixed costs	$1,905,000	
Difference in contribution margin	$7.14	
Indifference point	266,806	

Using the more labour-intensive production, break-even sales is 195,890 units, which is lower than the 230,956 units required when Pythagoras is being used. At the sale of 266,806 units, the company will be indifferent as to whether the production is done with or without Pythagoras.

What this means is that, if sales are lower than 266,806 units, profitability will be higher when Pythagoras is not used. If sales are higher than 266,806 units, profitability will be higher using Pythagoras, due to the higher contribution margin per unit when Pythagoras is used.

Based on the marketing department's forecast, they believe they can sell 250,000 units in the first year. If this is the case, and given that this is below the indifference point, Bold would be better off from a profitability perspective not to lease Pythagoras. If in a future year, sales are expected to be higher, Pythagoras could be leased at that time.

A few other points to consider are as follows:

- The R&D costs already incurred of $256,000 have not been included, as these are sunk costs.
- The commission based on the contribution margin is substantially different under each production process; under the no-Pythagoras process, the salesperson earns $1.82 commission for each unit sold, but with Pythagoras production, the salesperson earns $3.61 commission. Bold may want to consider reviewing the commission structure; a change in the commission structure would impact the break-even analysis.

For Assessment Opportunity #2, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to prepare a break-even analysis, with and without the new machine.

Competent – The candidate prepares a break-even analysis, with and without the new machine.

Competent with distinction – The candidate prepares a thorough break-even analysis, with and without the new machine, and makes a recommendation.

Assessment Opportunity #3 (Common) (Depth and Breadth Opportunity)

The candidate calculates and explains the sales variances.

The candidate demonstrates competence in Management Accounting.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
3.2.3	Computes, analyzes, or assesses implications of variances	**A**

CPA Map Enabling Competencies:
5.1.3 Develops and uses knowledge of the organization, industry and stakeholders
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Variance Analysis

We have been asked to calculate and explain the sales variances for the Chick’n division.

	Burgers	Nuggets	Sausages	Total
Actual sales volume in units	47,000	54,000	37,000	
Actual net selling price	$68.50	$48.20	$42.60	
Total	$3,219,500	$2,602,800	$1,576,200	$7,398,500

	Burgers	Nuggets	Sausages	Total
Budgeted sales vol. in units	48,000	47,500	39,000	
Budgeted net selling price	$68.20	$49.10	$45.10	
Total	$3,273,600	$2,332,250	$1,758,900	$7,364,750

As calculated above, the total actual sales for the entire division were higher than the budgeted amounts by $33,750 ($7,398,500 - $7,364,750). The price variance indicates that the actual selling price was higher than budgeted for the chick’n burgers, and was lower than budgeted for the chick’n nuggets and sausages. Quantities sold were higher than budgeted for only the chick’n nuggets.

Revenue is only part of the equation for profitability; therefore, further analysis using contribution margins by product is required, to fully understand the impact on profitability and the impact of the mix of products sold.

Sales volume variance by product line

Budgeted CM per unit × (actual - budgeted sales volume)

	Burgers	Nuggets	Sausages	
Budgeted CM per unit	$18.13	$11.20	$11.90	
Actual sales volume in units	47,000	54,000	37,000	
Budgeted sales volume in units	48,000	47,500	39,000	
Sales volume variance	**$18,130**	**$72,800**	**$23,800**	**$30,870 F**
	Unfavourable	**Favourable**	**Unfavourable**	

Sales quantity variance by product line

	Burgers	Nuggets	Sausages	
Budgeted CM per unit	$13.88	$13.88	$13.88	
Actual sales volume in units	47,000	54,000	37,000	
Budgeted sales volume in units	48,000	47,500	39,000	
Sales quantity variance	**$13,876**	**$90,194**	**$27,752**	**$48,566 F**
	Unfavourable	**Favourable**	**Unfavourable**	

Sales mix variance by product line

	Burgers	Nuggets	Sausages	
Actual sales mix	34.058%	39.130%	26.812%	100.000%
Budgeted sales mix	35.688%	35.316%	28.996%	100.000%
Difference (actual - budgeted sales mix %)	-1.630%	3.814%	-2.185%	
Actual total sales volume in units	138,000	138,000	138,000	
Budgeted CM per unit	$18.13	$11.20	$11.90	
Sales mix variance	**$40,776**	**$58,956**	**$35,877**	**$17,697 U**
	Unfavourable	**Favourable**	**Unfavourable**	

As seen from the above calculations, the overall sales volume variance for all three products combined was favourable, indicating that a higher volume of unit sales was achieved over the budgeted amount. This variance can be further broken down into the sales quantity variance by product line, and the sales mix variance. Furthermore, the implications for each product category are important to understand, and these are discussed below.

Chick'n burgers

Chick'n burgers had the highest budgeted selling price and highest budgeted contribution margin per unit of all three categories. The actual selling price during February was $0.30 higher than budgeted, but the actual quantity of sales was 1,000 units less than budgeted. The cause of the higher average selling price is likely due to the price increase charged to the independent retailers. However, the volume of sales from the target group fell, indicating that this higher price was an important consideration for these customers. The assumption made by the marketing department was that the small price increase would be seen as not relevant to these retailers, and not likely to impact their sales. This was proven to be incorrect.

It may be that, at this price point, the company's product was now higher than competitors' products, and the retailers may have decided to switch. Alternatively, the retailers may have passed the price increase along to customers who, in turn, purchased fewer of the products, leading to the retailers re-ordering stock less frequently. The marketing department needs to perform better research of the segment prior to making pricing changes, to ensure that the customers' and competitors' reactions are more accurately considered. In addition, this loss in quantity also caused the category to contribute a lower profit, in that the sales volume variance was unfavourable, at negative $18,130, and the sales mix variance was also unfavourable.

Chick'n sausages

Chick'n sausages have the lowest budgeted selling price per unit, but a higher budgeted contribution margin than the chick'n nuggets. As shown in the variance analysis above, the reduction in the sales price did not increase volumes. Instead, sales volumes decreased, resulting in the sales volume variance being unfavourable. The decrease in the selling price is due to Bold providing a temporary discount to retailers. Although this was run as a promotion to generate sales, it does not appear to have been successful. The lower actual selling price of $42.60, in comparison to the budgeted amount of $45.10, results in a reduction in the contribution margin of $2.50 per unit sold, and the quantities sold were 2,000 below budget, despite the lower price.

It appears that the consumer was not being incentivized to purchase this product, and it may be that the retailer was simply taking the rebate and not promoting the product in-store. Therefore, Bold should consider alternative marketing methods, to drive sales for this category. The marketing department should investigate why sales declined during the period, and why the retailer rebate incentive was not successful. These reductions in selling price, and volume quantities below the budgeted amounts, resulted in unfavourable sales volume and sales mix variances.

Chick’n nuggets

Chick’n nuggets have the second highest budgeted selling price but the lowest budgeted contribution margin. During February, the average actual selling price was lower than budgeted by $0.90 per unit. However, in this case, the quantities sold were significantly higher than budgeted, causing a favourable sales volume variance and a gain in profits of $72,800. This large favourable sales volume variance was high enough to cover the unfavourable variances for the other two products, resulting in a net favourable sales volume variance of $30,870. Quantities for this product were 6,500 higher than budgeted. The reason for the higher quantities was due to a new customer contract that was negotiated, with a lower price and for higher volumes. This customer is a small chain of vegan grocery retailers, and therefore, this contract to sell at a lower price but ensure higher volumes appears to have been a favourable decision for the company. However, it should be kept in mind that lowering the selling price by $0.90 will reduce the contribution margin to $10.30 ($11.20 - $0.90), assuming the budgeted costs are in line with actuals.

Overall profits

As noted above, the total sales volume variance was favourable by $30,870, but this can be further broken down into the total favourable sales quantity variance of $48,566, and an unfavourable sales mix variance of $17,697. This analysis indicates that, although a total higher volume of units was sold, the higher unit sales of the chick’n nuggets did not contribute sufficient profit to cover the unfavourable reduction in profits due to the lower unit sales for the chick’n burgers and chick’n sausages.

Therefore, although these marketing strategies increased total sales over budget, the impact is lower profits overall. Any marketing incentives to increase sales should also consider the contribution margins and the impact on profits if the sales mix is changed. In this case, there was an unfavourable change in the mix of sales, increasing the unit sales of chick’n nuggets, with the lowest contribution margins.

For Assessment Opportunity #3, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to calculate and analyze the sales variances.

Competent – The candidate calculates and analyzes the sales variances.

Competent with distinction – The candidate calculates and thoroughly analyzes the sales variances.

Assessment Opportunity #4 (Common) (Depth and Breadth Opportunity)

The candidate discusses the accounting treatment for the goodwill impairment related to the turk'y division.

The candidate demonstrates competence in Financial Reporting.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core
1.2.2	Evaluates treatment for routine transactions	A

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Goodwill Impairment

Under *ASPE 3064 Goodwill and Intangible Assets*, paragraph 72, "*Goodwill shall be tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit*". In the case of Bold's turk'y division, the company lost two large contracts, representing $5 million in sales, to a new competitor who has been aggressively targeting its customers. This represents 20% ($5 million / $25 million) of the turk'y division's revenues in one year. As per paragraph .73(c), this event of unanticipated competition and the subsequent loss of revenues is an example of a change in circumstances that would necessitate the review of whether goodwill has been impaired.

We need to first determine the reporting unit. Per ASPE 3064.08:

> *"(j) An operating segment is a part of an enterprise:*
> *(i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same enterprise);*
> *(ii) for which operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and*
> *(iii) for which discrete financial information is available.*
>
> *An operating segment may engage in business activities for which it has yet to earn revenues. For example, start-up operations may be operating segments before earning revenues.*
>
> *(k) A reporting unit is the level of reporting at which goodwill is tested for impairment and is either an operating segment or one level below (referred to as a component). A component of an operating segment is a reporting unit when the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. However, two or more components of an operating segment are aggregated and deemed a single reporting unit when the components have similar economic characteristics. An operating segment is deemed to be a reporting unit when all of its components are similar, when none of its components is a reporting unit or when it is comprised of only a single component."*

The turk'y division meets the definition of an operating segment, as it is a separate division that earns its own revenues and incurs its own expenses. As Bold is broken down into three divisions (the other two being protein mixture and chick'n), each division's operating results are likely regularly reviewed by management, and each division's revenues and expenses are tracked separately. As the turk'y division is an operating segment, it is also a reporting unit.

The next step is to determine the carrying value of the reporting unit. As noted in ASPE 3064.78:

> *"For the purpose of testing goodwill for impairment, acquired assets and assumed liabilities shall be assigned to a reporting unit, as of the date of acquisition, when:*
>
> *(a) the asset is employed in, or the liability relates to, the operations of a reporting unit; and*
>
> *(b) the asset or liability is considered in determining the fair value of the reporting unit."*

The assets have already been individually tested for impairment, which is required before the goodwill impairment test is performed.

The carrying value of the reporting unit is determined as follows:

	Carrying Value as at December 31, 2022
Accounts receivable	$ 1,950,000
Inventories	2,114,000
Property, plant, and equipment (net)	6,432,000
Goodwill	2,640,000
Accounts payable	(3,020,000)
Asset retirement obligations	(560,000)
Net carrying value	$ 9,556,000

In determining the impairment loss, paragraph .74 states:

> *"When the carrying amount of a reporting unit, including goodwill, exceeds its fair value a goodwill impairment loss shall be recognized in an amount equal to the excess. The goodwill impairment loss recognized shall not exceed the carrying amount of goodwill. A goodwill impairment loss shall not be reversed if the fair value of the reporting unit subsequently increases."*

The initial step, to determine if the undiscounted cash flows are less than the carrying value, is not used in determining the impairment loss of goodwill, as it is with other impairment tests. In addition, the value in use is not used in determining the impairment loss, since it is only the fair value that is used under ASPE. Finally, fair value is defined in the standard as the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. As a result, the disposal costs are not included in the determination of the fair value.

The impairment loss of the reporting unit is calculated as follows:

Carrying value (as above)	$9,556,000
Fair value before disposal costs	(8,900,000)
Impairment loss	$ 656,000

The impairment loss is allocated all to the goodwill, and the adjusting journal entry is:

Dr. Impairment loss	656,000	
Cr. Goodwill		656,000

The impairment loss is shown separately on the income statement. In addition, note disclosure, describing the facts and circumstances leading to the impairment and the amount of the impairment loss, is required.

For Assessment Opportunity #4, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss the accounting treatment for the goodwill impairment.

Competent – The candidate discusses the accounting treatment for the goodwill impairment.

Competent with distinction – The candidate thoroughly discusses the accounting treatment for the goodwill impairment.

Assessment Opportunity #5 (Common) (Depth and Breadth Opportunity) The candidate discusses the accounting treatment for the recognition of the note payable from the supplier. *The candidate demonstrates competence in Financial Reporting.*

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
1.2.1	Develops or evaluates appropriate accounting policies and procedures	A
1.2.2	Evaluates treatment for routine transactions	A

CPA Map Enabling Competencies: *6.1.1 Identifies and articulates issues within areas of work responsibility* *6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems* *6.2.1 Maintains an objective and questioning mindset to avoid biased analyses* *6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives* *6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions* *6.3.3 Applies decision criteria to choose among viable alternatives*

Note Payable

The supplier note payable has not been recognized correctly on September 1, 2022. Per *ASPE 3856 Financial Instruments*, paragraph 07:

> *"Except as specified in paragraph 3856.09A, when a financial asset is originated or acquired or a financial liability is issued or assumed in an arm's length transaction, an enterprise shall measure it at its fair value adjusted by, in the case of a financial asset or financial liability that will not be measured subsequently at fair value, financing fees and transaction costs that are directly attributable to its origination, acquisition, issuance or assumption."*

In this case, the interest rate of 2% is below market rates at the time, given that the company would have paid 6.5% (prime 5.0% + 1.5%) on its line of credit, to borrow the $2 million. The line of credit rate is a variable rate based on prime, and therefore is a good estimate of what the interest rate should have been on this note, given its credit risk.

As fair value should reflect the risk and credit quality of the note payable, the discount rate of 6.5%, and not 2%, is used to determine the fair value on September 1.

Fair value is determined by discounting the future cash flows required for the loan. Interest is paid monthly, so we will assume that an amount of $2,000,000 × 2%/12 = $3,333.33 is paid monthly. The interest and principal are discounted using the PV formula:

PV (rate, nper, pmt, [fv])

Rate = 6.5%/12
Nper = 24 months
Pmt = $3,333.33 (interest paid monthly)
FV = $2,000,000 (principal paid at the end)

PV = $1,831,636

The first correcting journal entry is to adjust the note payable to its fair value at September 1 ($1,831,636 - $2,000,000):

Dr. Note payable – Supplier	$168,364	
Cr. Manufacturing equipment		$168,364

For subsequent measurement, ASPE 3856 notes:

“.11 Except for those financial instruments for which paragraphs 3856.14-.14A or 3856.15A apply, at each reporting date, an enterprise shall subsequently measure a financial instrument based on how it initially measured the instrument. If the enterprise initially measured the financial instrument at:

(a) fair value, it shall subsequently measure the instrument as follows:

(i) investments in equity instruments that are quoted in an active market and derivative contracts at fair value in accordance with paragraph 3856.12;
(ii) financial assets and financial liabilities at fair value, if the enterprise elects that fair value measurement shall apply in accordance with paragraphs 3856.13 or 3856.13A;
(iii)investments in equity instruments not quoted in an active market, when originated or acquired in an arm's length transaction, at cost less any reduction for impairment;
(iv)all other financial assets at amortized cost; and
(v) financial liabilities at amortized cost; or

(b) cost, it shall subsequently measure the instrument using the cost method less any reduction for impairment.

.13 Except for a financial instrument to which paragraph 3856.09A applies, an enterprise may elect to subsequently measure any financial asset originated or acquired or financial liability issued or assumed in an arm's length transaction, at fair value by designating that fair value measurement shall apply:

(a) when the asset or liability is first recognized in accordance with this Section; or

(b) for an investment in an equity instrument that was previously measured at fair value in accordance with paragraph 3856.12(a), when the instrument ceases to be quoted in an active market.

Any designation in accordance with this paragraph is irrevocable."

Therefore, the company can elect to measure the financial liability at fair value at each reporting period or use amortized cost. The election must be made at the time the initial note payable is recognized on September 1, and is irrevocable once made.

Under fair value measurement, the company must revalue the note payable at fair value as at December 31, 2022, and any unrealized gains or losses would be recognized in net earnings in 2022.

Amortized cost is more commonly used in practice, and avoids the impact of fair value changes in the net earnings. In addition, since Bold did not make the election to subsequently measure the note payable at fair value on September 1, 2022, it will have to use the amortized cost method.

For amortized cost, ASPE 3856.A3 states:

"When a financial instrument is issued or purchased at a premium or discount relative to its face amount, the difference represents a prepaid adjustment of interest. This amount is a component of the initial carrying amount of the financial instrument. When the financial instrument is measured at amortized cost, any premium or discount is amortized over the expected life of the item and recognized in net income as interest income or expense."

Therefore, any premium or discount (i.e., the $168,364 recorded above) needs to be amortized over the expected life of the note and recognized in net income as interest income or expense. The note payable was issued at a discount; therefore, the discount is amortized into income over the 24 months of the loan. There is a choice to use the straight-line method or the effective interest rate method as the method of amortization. Both are shown below.

Effective interest rate method

Under the effective interest rate method, the interest rate is applied each month to the note payable outstanding balance, as shown below in the amortization schedule.

Date	**Monthly Interest Payment at 2%/12**	**Interest Expense at 6.5%/12**	**Balance**
Sept 1 2022			1,831,636.00
Sept 30 2022	3,333.33	9,921.36	1,838,224.03
Oct 31 2022	3,333.33	9,957.05	1,844,847.75
Nov 30 2022	3,333.33	9,992.93	1,851,507.35
Dec 31 2022	**3,333.33**	**10,029.00**	**1,858,203.02**
Jan 31 2023	3,333.33	10,065.27	1,864,934.96
Feb 28 2023	3,333.33	10,101.73	1,871,703.36
Mar 31 2023	3,333.33	10,138.39	1,878,508.42
Apr 30 2023	3,333.33	10,175.25	1,885,350.34
May 31 2023	3,333.33	10,212.31	1,892,229.32
June 30 2023	3,333.33	10,249.58	1,899,145.57
July 31 2023	3,333.33	10,287.04	1,906,099.28
Aug 31 2023	3,333.33	10,324.70	1,913,090.65
Sept 30 2023	3,333.33	10,362.57	1,920,119.89
Oct 31 2023	3,333.33	10,400.65	1,927,187.21
Nov 30 2023	3,333.33	10,438.93	1,934,292.81
Dec 31 2023	3,333.33	10,477.42	1,941,436.90
Jan 31 2024	3,333.33	10,516.12	1,948,619.69
Feb 28 2024	3,333.33	10,555.02	1,955,841.38
Mar 31 2024	3,333.33	10,594.14	1,963,102.19
Apr 30 2024	3,333.33	10,633.47	1,970,402.33
May 31 2024	3,333.33	10,673.01	1,977,742.01
June 30 2024	3,333.33	10,712.77	1,985,121.45
July 31 2024	3,333.33	10,752.74	1,992,540.86

Date	Monthly Interest Payment at 2%/12	Interest Expense at 6.5%/12	Balance
Aug 31 2024	3,333.33	10,792.47	2,000,000.00
	79,999.92	248,363.92	

Difference 168,364.00

Under the effective interest rate method, the interest expense will change each month, being lower in the earlier months, and higher as maturity approaches.

For 2022, the interest expense would be the total of the interest expense for each of the four months in the year, being $39,900.34, compared to 4 × $3,333.33 = $13,333.32 (rounded to $13,000 in the financial statements) that was expensed.

The correcting journal entry required is:

Dr. Interest expense (39,900.34 - 13,333.32) $26,567.02
  Cr. Note payable – Supplier $26,567.02

Proof: $2,000,000 - 168,364 + 26,567 = $1,858,203, which agrees to the above schedule.

<u>Straight-line method</u>

Alternatively, the company can use straight-line amortization, which results in interest expense for each month being the same for all 24 months, and is equal to: $3,333.33 + ($168,364 ÷ 24) = $10,348.50.

Under this method, the interest expense of the four months for 2022 is $41,394.00 ($10,348.50 × 4). The correcting journal entry required is:

Dr. Interest expense ($41,394.00 - 13,333.32) $28,060.68
  Cr. Note payable – Supplier $28,060.68

We recommend that the straight-line method be used, as it is easiest to apply.

Finally, there will be an adjustment required to the amortization of the equipment, since it had been overstated when it was originally recorded; it was likely recorded at the full $3.2 million, based on how the note payable was recorded, and a portion of that $3.2 million did not relate to the equipment, but rather to financing (the discount of $168,364).

For Assessment Opportunity #5, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss the accounting treatment for the note payable.

Competent – The candidate discusses the accounting treatment for the note payable.

Competent with distinction – The candidate thoroughly discusses the accounting treatment for the note payable.

Assessment Opportunity #6 (Common) (Depth and Breadth Opportunity)

The candidate discusses the accounting treatment for two subsequent events.

The candidate demonstrates competence in Financial Reporting.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core
1.2.2	Evaluates treatment for routine transactions	A

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Subsequent Events

Under *ASPE 3820 Subsequent Events*, events that occur after December 31, 2022, but prior to completion of the financial statements may indicate a need to adjust items or to make specific disclosures in the 2022 statements, and therefore, the implications and financial effects of subsequent events would be considered. Paragraph 07A, states that financial statements are complete when:

> *"(a) a complete set of financial statements, including all required note disclosures, has been prepared;*
>
> *(b) all final adjusting journal entries have been reflected in the financial statements (for example, adjustments for income taxes and bonuses);*
>
> *(c) no changes to the financial statements are planned or expected; and*
>
> *(d) the financial statements meeting the above requirements have been approved in accordance with the entity's process to finalize its financial statements."*

Today is March 10, 2023, and there are still some accounting issues that are being assessed and require adjusting journal entries (i.e., goodwill and the note payable above). It is also unlikely that all the note disclosures have been completed. Finally, as these statements are in draft, requiring further adjustments, they will not yet have been approved. Therefore, the statements are still incomplete as of March 10, 2023, and the events/transactions that occurred on January 28, 2023, and in early February 2023 are within the cut-off period and should be assessed under this standard.

There are two subsequent events that have occurred in this cut-off period prior to the statements being completed. As a result, we must determine if the events require an adjustment to be made to the 2022 year-end financial statements or whether the events are non-adjusting events. If they are non-adjusting events, we must further determine if they require disclosure.

As required by ASPE 3820.06: "*Subsequent events may provide additional information relating to items included in the financial statements and may reveal conditions existing at the financial statement date that affect the estimates involved in the preparation of financial statements. All such information that becomes available prior to completion of the financial statements would be used in evaluating the estimates made and the financial statements would be adjusted where necessary. For example, the institution of bankruptcy proceedings against a debtor, subsequent to the date of the financial statements, may be indicative of the underlying financial situation of the debtor at the date of the financial statements. If the provision for that debt were inadequate, adjustment of the financial statements would be required*".

Therefore, if the event provides additional information related to conditions already existing at December 31, 2022, and this information is useful in evaluating estimates that have been made, the financial statements need to be adjusted.

In addition, ASPE 3820 states:

> *".09 Financial statements shall not be adjusted for those events occurring between the date of the financial statements and the date of their completion that do not relate to conditions that existed at the date of the financial statements.*
>
> *.10 Disclosure shall be made of those events occurring between the date of the financial statements and the date of their completion that do not relate to conditions that existed at the date of the financial statements but:*
>
> *(a) cause significant changes to assets or liabilities in the subsequent period; or*
>
> *(b) will, or may, have a significant effect on the future operations of the enterprise."*

If the event does not relate to conditions existing at the financial statement date, no adjustment is required, but disclosure may be required.

<u>Grant</u>

In November 2022, Bold completed an application to the provincial government for a grant related to development of a new product. In February, Bold was notified that it would receive a grant of $175,000 related to this program.

Although the R&D expenses were incurred in 2022, and the application was made prior to December 31, we must determine if this subsequent approval for the government grant provides additional information of conditions already existing at December 31, 2022. The question is whether there was any indication at December 31, 2022, that the company would receive this grant, and therefore, this was confirmation of its receipt. Since this was a new and competitive program, with a maximum number of 10 recipients out of 100 applicants, Bold has no supporting evidence that it was a successful recipient at December 31, 2022.

Therefore, we conclude that this is not an adjusting event, and there should be no receivable recognized at December 31, 2022, for this amount.

Since it is not an adjusting event, we must next determine if it qualifies for note disclosure as a subsequent event. Per ASPE 3820.10 above, disclosure is required for non-adjusting events that: (a) cause significant changes to assets or liabilities in the subsequent period; or (b) will, or may, have a significant effect on the future operations of the enterprise. In addition, paragraph 12 notes that "*some events occurring after the financial statement date may have a significant effect, in a subsequent period, on the assets and liabilities or future operations of an enterprise and disclosure could be important to users in their interpretation of the financial statements.*"

This transaction represents 0.3% ($175,000/$56,345,000) of total assets, and it could be argued that it will not have a significant impact on assets, and therefore, the first criterion is not met. However, the receipt of $175,000, which will be recognised as income in 2023, represents 10.9% of 2022 net income ($175,000/$1,599,000); this amount is material, and therefore has a significant impact on future 2023 operations.

ASPE 3810.11 then details the minimum disclosure required which includes:

> *"(a) a description of the nature of the event; and*
>
> *(b) an estimate of the financial effect, when practicable, or a statement that such an estimate cannot be made."*

Based on this analysis, the company would provide note disclosure of the government grant for its research and development, and the amount that has been received in February 2023.

Employee termination

In December, Frieda Gore was terminated and paid $80,000. At the time of this termination, Frieda indicated that she was unhappy with this settlement, and argued that she had not been told about any performance-related issues. However, the severance cheque was cashed prior to the end of December. On January 28, 2023, Bold received notice from Frieda's legal representative that she had filed a lawsuit, demanding more severance pay, saying that the employment policies for the company had not been properly followed and she had not been given proper notice of the performance issues. Her lawyer demanded damages and severance totalling an additional $230,000. Bold's lawyers have advised that this lawsuit will likely be settled for an amount between $50,000 and $100,000, in addition to the severance previously paid.

This is a subsequent event and a contingency. With respect to a contingency, *ASPE 3290 Contingencies*, paragraph 09 states that: "*If it is likely that a contingency existing at the financial statement date will result in a loss, accrual of its financial effects would be required*." In this case, the lawyers have indicated that there is likely to be a loss. Therefore, this criterion is met. The next criterion is whether it can be reasonably measured. Paragraph .13 notes that "*the estimation of the amount of a contingent loss to be accrued in the financial statements may be based on information that provides a range of the amount of loss. When a particular amount within such a range appears to be a better estimate than any other, that amount would be accrued. However, when no amount within the range is indicated as a better estimate than any other, the minimum amount in the range would be accrued*". Therefore, the bottom of the range would be a loss of $50,000.

The next issue is whether this is an adjusting or non-adjusting event. At the end of 2022, Frieda had been terminated and indicated that she was not satisfied with the severance. However, the lawsuit was not filed until January, after the year end, when the company received notice, although the event that triggered the lawsuit being commenced was Frieda's termination in December. Therefore, the cause of the lawsuit occurred in 2022, even though the company was not made aware of the lawsuit's existence until 2023. Therefore, an adjustment for the loss of $50,000 is required in 2022. Note disclosure will also be required, including the nature of the lawsuit, the amount that has been accrued in the financial statements, and any exposure to loss in excess of the amount accrued.

Therefore, the adjustment required is:

Dr. Lawsuit expense	50,000	
Cr. Accrued liabilities		50,000

For Assessment Opportunity #6, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss the accounting treatment for the two subsequent events.

Competent – The candidate discusses the accounting treatment for the two subsequent events.

Competent with distinction – The candidate thoroughly discusses the accounting treatment for the two subsequent events.

DAY 2 ‑ MARKING GUIDE ‑ ASSURANCE ROLE
BOLD PLANT FOODS LIMITED (BOLD)

To: Kayla Minhas
From: CPA
Subject: Audit issues

See Common Marking Guide for the Common Assessment Opportunities #1 to #6.

Assessment Opportunity #7 (Depth Opportunity)
The candidate discusses the accounting treatment for the related party transaction.
The candidate demonstrates competence in the Assurance role.

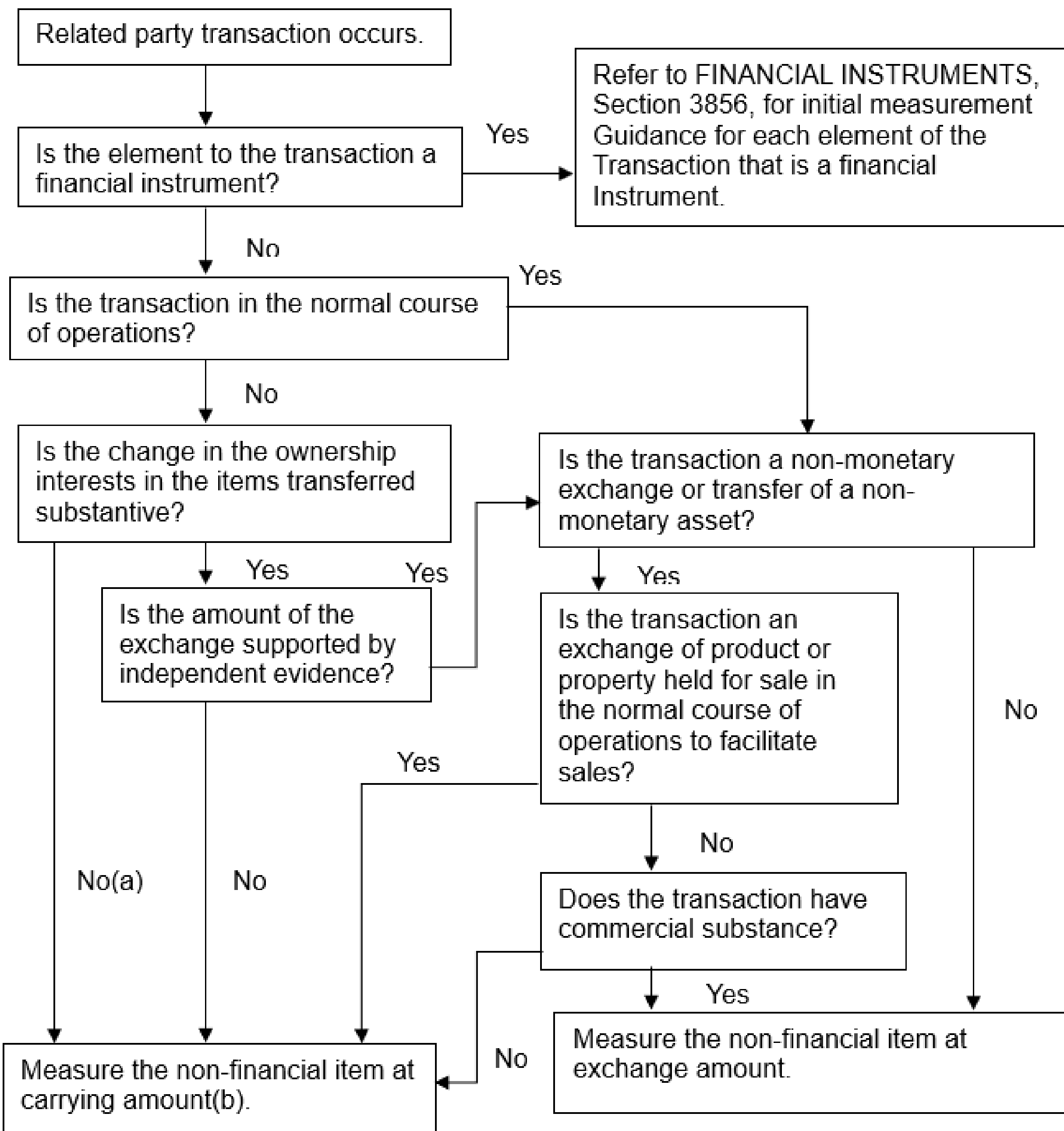
CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**	**E3 AS**
1.2.3	Evaluates treatment for non-routine transactions	**B**	**A**

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

On November 12, 2022, Bold acquired used manufacturing equipment from Meals 2 Go Inc. (M2G), a company in which Treadstone owns 40% ownership.

The first step is to determine if this qualifies as a related party transaction. To determine the accounting for this transaction, *ASPE 3840 Related Parties* is the relevant standard. Under ASPE 3840.03, "*related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members*". In this case, Treadstone owns 60% of Bold, and therefore controls the company. Treadstone also owns 40% of M2G, and therefore has significant influence over this company. Therefore, Bold and M2G are related under the definition of ASPE.

The next step is to determine how the transaction should be recognized and measured in the books of Bold. As required under ASPE 3840, the measurement of this related party transaction is set out in the standard in order to determine if the carrying amount or the exchange amount should be used when recording this transaction. In addition, a decision tree is laid out in the standard to help with its implementation, which details the following decisions:



(a) Carrying amount is used for both monetary and non-monetary transactions in these circumstances.

(b) In rare circumstances, when the carrying amount of the item received is not available, a reasonable estimate of the carrying amount, based on the transferor's original cost, may be used to measure the exchange.

1. Is the element to the transaction a financial instrument?
   No. Bold purchased used manufacturing equipment, which is not a financial instrument.

2. Is the transaction in the normal course of operations?
   No. Both of the companies are manufacturing companies, and therefore, the buying and selling of manufacturing equipment is not in their normal operations. In addition, ASPE 3840.27 states: "*Examples of transactions not in the normal course of operations include the sale or purchase of capital assets…*" As the manufacturing equipment represents a capital asset for both Bold and M2G, the transaction is not in the normal course of operations.

3. Is the change in the ownership interests in the items transferred substantive?
   Yes. ASPE 3840.35 states that, "*a change in the equity ownership interests in an item transferred, or the benefit of a service provided, is presumed to be substantive when a transaction results in unrelated parties having acquired or given up at least 20 percent of the total equity ownership interests in the item or service benefits, unless persuasive evidence exists to the contrary*". In this case, Juliette and Simon used to own 0% of the manufacturing equipment and now own 40% after the purchase. Furthermore, the other owners of M2G used to own 60% of the manufacturing equipment and now own 0% after the sale to Bold. Therefore, there has been a substantive change in ownership interests.

4. Is the amount of the exchange supported by independent evidence?
   No. There is an independent appraised value of $150,000 for the equipment; however, this appraisal does not support the exchange amount of $100,000.

Therefore, the decision based on these steps is that the transaction is recognized by Bold at the carrying amount of the equipment ($140,000). ASPE 3840.09 provides guidance on how to record the difference: "*When a related party transaction is measured at the carrying amount, any difference between the carrying amounts of items exchanged, together with any tax amounts related to the items transferred, shall be included as a charge or credit to equity.*"

Therefore, the adjusting journal entry to be made in 2022 to correct the transaction will be:

Dr. Machinery	$40,000 ($140,000 - $100,000)	
Cr. Contributed surplus		$40,000

Per ASPE 3840.51, Bold will need to disclose the following information in the financial statements for all related party transactions entered into during the year:

"(a) a description of the relationship between the transacting parties;

(b) a description of the transaction(s), including those for which no amount has been recognized;

(c) the recognized amount of the transactions classified by financial statement category;

(d) the measurement basis used;

(e) amounts due to or from related parties and the terms and conditions relating thereto;

(f) contractual obligations with related parties, separate from other contractual obligations; and

(g) contingencies involving related parties, separate from other contingencies."

For Assessment Opportunity #7, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss the accounting treatment for the related party transaction.

Competent – The candidate discusses the accounting treatment for the related party transaction.

Competent with distinction – The candidate thoroughly discusses the accounting treatment for the related party transaction.

Assessment Opportunity #8 (Depth Opportunity)

The candidate discusses fraud risk factors at both the overall financial statement level and specific to revenue, and describes the auditor's expected response to each of the risk factors.

The candidate demonstrates competence in the Assurance role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core	E3 AS
4.1.1	Assesses the entity's risk assessment processes	A	A
4.3.5	Assesses the risks of the project, or, for audit engagements, assesses the risks of material misstatement at the financial statement level and at the assertion level for classes of transactions, account balances, and disclosures	B	A
4.3.6	Develops appropriate procedures, including Audit Data Analytics (ADA), based on the identified risk of material misstatement	B	A

CPA Map Enabling Competencies:
1.3.1 Maintains a skeptical mindset when performing assigned work
1.4.1 Performs work carefully, thoroughly and competently in accordance with relevant technical and professional standards
2.2.1 Assists in identifying and monitoring risks within areas of work responsibility
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

CAS 240 *The Auditor's Responsibility Relating to Fraud* provides guidance that can be considered in the determination of fraud risk factors:

> *"2. Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.*

3. Although fraud is a broad legal concept, for purposes of the CASs, the auditor is concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor — misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred."

Therefore, fraud is intentional misstatement of the financial statements, including misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. CAS 240.A1 explains that fraud "*involves incentive or pressure to commit fraud, a perceived opportunity to do so and some rationalization of the act*." In assessing fraud risk, the internal auditor will look for incentive or pressure, and the opportunity to commit a fraudulent act. Below, we have identified the fraud risk factors and the auditor's expected response for each.

Fraud Risks at the Overall Financial Statement Level (OFSL)

<u>Treadstone involvement</u>

Risk factor: Treadstone, as a private equity investment firm, has a primary objective to maximize divisional monthly profits, to enable it to earn a greater return when it sells Bold in the next five to eight years (or perhaps sooner). Treadstone is concerned that Bold has not been meeting its sales and profit targets. As a result, Treadstone is trying to decide whether to continue to invest in Bold or to divest of its shares. If divesting, this will impact Simon's and Juliette's shares also, as they may be required to sell their shares or agree to another shareholder.

Incentive/pressure: Simon and Juliette have incentive for Bold to report revenues and profits as high as possible, to achieve (or come close to) Treadstone's expectations. By meeting their expectations, this could ensure that Treadstone maintains its investment in Bold. In addition, Treadstone will want Bold to show high revenues and profits if it wants to sell at the highest price possible to the interested buyers.

Opportunity: Juliette is involved in negotiating sales contracts, authorizing purchases, and signing cheques. Simon also has control over authorizing purchases and signing cheques. They would also be involved in authorizing journal entries and reviewing the monthly statements. Therefore, there would be many opportunities to increase revenues or decrease expenses in the financial statements.

Rationalization: Simon and Juliette may feel protective of Bold as they are the founders of the company and would not want to divest of its shares.

Auditor's expected response to this OFSL fraud risk factor:

- Overall, there should be an increase in the auditor's level of professional skepticism in conducting the audit, and more awareness of possible instances of fraud.
- Evaluate the estimates for allowances, write-offs, and amortization more closely, to ensure that they are appropriate and not underestimated (which would lead to higher profits).
- Increase the substantive audit work around the cut-off of revenues, to ensure that revenues are properly recognized in the appropriate year, and that 2022 revenues are not overstated.
- Increase the substantive audit work on completeness of expenses and liabilities.
- Increase substantive work for year-end journal entries that would lead to higher profits.

Additional financing

Risk factor: Juliette is in the process of obtaining additional financing from a new lender, to support Bold's investment in automation.

Incentive: Simon and Juliette have incentive for Bold to show revenues and profits that would justify investment by the new lender. Any investor or lender will be interested in seeing improving trends or better-than-industry averages. If the new financing is not received, this could impact Bold's growth in 2023 and onwards, given how competitive the industry has become.

Opportunity: Juliette is involved in negotiating sales contracts, authorizing purchases, and signing cheques. Simon also has control over authorizing purchases and signing cheques. They would also be involved in authorizing journal entries and reviewing the monthly statements. Therefore, there would be many opportunities to increase revenues or decrease expenses in the financial statements.

Rationalization: Simon and Juliette will want to ensure that Bold is profitable so that the new lender is interested in loaning additional funds, and so that Bold can continue its operations, meet its growth targets, and continue to employ its current employees.

Auditor's expected response to this OFSL fraud risk factor:

- Similar response to the Treadstone involvement fraud risk factor above.

IT systems

Risk factor: The IT manager went on sick leave in June 2022, and was not replaced. As a result, there were sometimes delays in removing terminated employees from Bold's systems.

Incentive: Terminated employees may want to punish the company in some way, which could be done by accessing IT systems and creating fraudulent transactions. This could cause Bold to have significant losses and/or ruin its reputation, depending on the nature of the fraudulent transactions.

Opportunity: Since the past employees are not being deleted from the systems in a timely manner, there is an increased risk that past employees could access the systems and engage in fraudulent activities.

Rationalization: If employees feel they were terminated for unjust reasons, they may feel that Bold owes them more compensation or other benefits.

Auditor's expected response to this OFSL fraud risk factor:

- Ask for a printout of all access to Bold's IT systems by past employees for the period from June to December. Check that access was only made prior to the employee being terminated. Any access made by a terminated employee after leaving the company needs to be followed through, to determine which systems they accessed, and what they did while on the system. Ensure that access is now revoked for all past employees. Discuss with management the practices in place to ensure that, when an employee is terminated, their access to the systems is immediately revoked.

Fraud Risks Related to Revenue

<u>Contracts under $20,000</u>

Risk factor: Juliette has had to spend more time on the road visiting customers and renegotiating contracts, and less time in the office. To save time, the salespeople can now negotiate customer contracts for sales up to $20,000; any contracts above that limit require approval by Juliette. Salespeople were given 2022 targets related to total units sold and number of new customers, which are used to determine if bonuses are earned.

Incentive: Increasing recorded sales would allow the salespeople to meet their unit sales and new-customer targets, increasing their bonus potential.

Opportunity: To meet these sales targets, which are not tied to the sales value, salespeople could sign contracts (where each contract is less than $20,000) in which sales are below market prices. Also, they could convince the customer to sign several smaller contracts rather than one larger one. This would give the salesperson the ability to negotiate contract prices that are favourable to the customer for acceptance, thereby improving their chances of meeting targets on units sold and number of new customers.

Rationalization: The salespeople could rationalize that they are entitled to higher commissions, since they now have increased responsibilities.

Auditor's expected response to this fraud risk factor:

- Perform an audit data analytics procedure on sales by product for the year, to identify situations where the sales price is outside a range of acceptable prices for that product. For anomalies outside the acceptable range, investigate the reason with the relevant salespeople, and discuss with Juliette.
- Select a sample of customer contracts that have not been approved by Juliette. Ensure that the sample includes contracts from each salesperson and throughout the whole year. Review, to determine if the pricing is in line with accepted prices, or with prices on other contracts for the same products in the same period. Where contracted prices are below the accepted prices, obtain a reason from the salesperson for this. Inquire with Juliette whether the price charged is appropriate.
- In particular, select customers that have signed multiple smaller contracts, all less than $20,000, during 2022. Review the contracts from the single customer, noting the salesperson involved and the prices provided. Review the dates of the contracts. Inquire with the salesperson to determine the reason for the multiple contracts. Inquire with Juliette whether the rationale for multiple contracts is reasonable.

Larger sales contracts negotiated by Juliette

Risk factor: There are some larger sales contracts negotiated by Juliette that could have complex terms (deliveries over time, price adjustments, rights of return, etc.). The revenue recognition of these contracts may be complex.

Incentive: As discussed previously, there is incentive for Treadstone, Juliette, and Simon to maximize profits (to show strong operations for future potential investors and lenders), which could be achieved by maximizing revenue recognized in the period. Premature revenue recognition could occur before the risks and rewards of ownership have been transferred to the buyer.

Opportunity: As the terms on some of the larger sales contracts can be complex, such as commitments to make deliveries over time or clauses affecting the sales price, there is an opportunity for Bold to be biased in assessing the revenue recognition criteria in ASPE in order to recognize revenue prematurely.

Rationalization: As discussed previously, Treadstone, Juliette, and Simon may be able to rationalize premature revenue recognition, to help ensure the continued operations of Bold or to get the best possible selling price if the shares are sold.

Auditor's expected response to this fraud risk factor:

- For significant sales contracts (greater than $20,000) with complex terms, evaluate whether revenue recognition criteria have been met and are supportable with objective evidence.

<u>Sales commission structure</u>

Risk factor: The sales commission structure was changed during the year to be based on the contribution margin and not gross revenues. We know that Frieda has been vocal about her dissatisfaction with the low base salary, and says that she speaks for everyone. In addition, salespeople have been assigned to specific customers and given control to approve rebates, volume discounts, and credits.

Incentive: If salespeople do not feel they are being fairly compensated under the new commission structure, they may look for ways to increase their personal cash flow.

Opportunity: This added cash flow could arise from getting kickbacks paid directly from the customers. They could achieve this by charging higher-than-market prices and then authorizing unearned rebates, volume discounts, or credits, and asking the customer to pay them a kickback equal to these amounts. In this way, the customer pays the same amount but the salesperson has received a higher compensation. Alternatively, they could charge market prices and still provide unearned rebates, discounts, or credits paid as kickbacks; this has the effect of granting below-market prices to customers, which is another way to maximize their commissions and improve their chances of earning a bonus.

Rationalization: The salespeople may rationalize this in believing that they should not be taking home less pay simply because the company changed its compensation structure.

Auditor’s expected response to this fraud risk factor:

- Perform an audit data analytics procedure on sales by salesperson for the year, to identify salespersons who granted higher-than-average levels of rebates/discounts/credits as a percentage of the sales contract. Investigate anomalies identified.
- Review the documents supporting the rebates, volume discounts, and credits for unusually high amounts or multiple transactions with the same customer, or unusually high frequency of rebates/discounts/credits granted by a particular salesperson.
- Trace back to the customer contract and the related documentation for these rebates, volume discounts, and credits. Check that they are valid (i.e., met the conditions for the rebate/discount/credit).
- In addition, contact customers directly regarding the “credits” that have been received on their account. Confirm the reason for these amounts and the balance receivable at the end of the year.

Disgruntled former salesperson (Frieda)

Risk factor: Frieda Gore was terminated in December and is a disgruntled employee, and therefore may have engaged in fraudulent behaviour prior to her termination, due to her anger and frustration.

Incentive: Frieda believes that she has not been properly compensated for her work, and could look for methods to increase her compensation.

Opportunity: Throughout the year, Frieda, as a salesperson, would have had access to customers, their contracts, and approval of rebates, discounts, and credits.

Rationalization: Frieda believes that she has not been properly compensated for her work and therefore could feel that asking customers to provide a kickback is a method to get this compensation.

Auditor’s expected response to this fraud risk factor:

- All of the above tests for the revenue and receivables need to include all of the customer contracts administered by Frieda. See above audit procedures.

Bonuses/commissions through early recording of sales

Risk factor: There are targets that the salespeople have to achieve in order to earn bonuses. The risk is that the salespeople may want to include shipments that were made in 2023 in 2022 revenues. In addition, the salespeople could also ask customers to take shipments in 2022 and then issue credits for returned items in 2023, causing the revenues to be overstated for the year ended December 31, 2022.

Incentive: There is incentive for the salespeople to increase their customer sales in 2022, to meet their 2022 targets for units sold and new customers, increasing their bonus potential. Early recognition of sales would also improve their 2022 sales commissions.

Opportunity: Because the salespeople approve and sign the sales contracts, they can ask that the sales be shipped and recognized in 2022. And then in 2023, they can issue a credit note for the return of these items.

Rationalization: The salespeople may rationalize this in believing that they should not be taking home less pay simply because the company changed its sales commission and bonus structure, so they feel it would be acceptable to recognize sales contracts early in order to increase their bonus and commissions.

Auditor's expected response to this fraud risk factor:

- Test the cut-off of sales at the end of the year. Select a sample of sales from December 2022 and inspect the shipping documents, to ensure that the goods have been shipped and received by the customer prior to December 31, 2022, in order to be included in 2022 sales.
- Obtain a list of credits issued in the beginning of 2023. Review the documentation and reason for the returns, and determine if the credit impacts revenues for 2022.

For Assessment Opportunity #8, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss fraud risk factors and attempts to describe the auditor's expected response.

Competent – The candidate discusses some fraud risk factors, both at the OFSL and specific to revenue, and describes the auditor's expected response to address the risks identified.

Competent with distinction – The candidate discusses several fraud risk factors, both at the OFSL and specific to revenue, and describes the auditor's expected response to address the risks identified.

Assessment Opportunity #9 (Depth Opportunity)

The candidate discusses the audit procedures the external auditors will likely perform for the financial reporting issues identified by Juliette and Kayla.

The candidate demonstrates competence in the Assurance role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core	E3 AS
4.3.5	Assesses the risks of the project, or, for audit engagements, assesses the risks of material misstatement at the financial statement level and at the assertion level for classes of transactions, account balances, and disclosures	B	A
4.3.6	Develops appropriate procedures, including Audit Data Analytics (ADA), based on the identified risk of material misstatement	B	A

CPA Map Enabling Competencies:
1.3.1 Maintains a skeptical mindset when performing assigned work
1.4.1 Performs work carefully, thoroughly and competently in accordance with relevant technical and professional standards
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

The following details the audit procedures that will likely be performed by Bold's external auditors for the accounting issues that arose.

Goodwill Impairment

- Discuss with management whether the turk'y division continues to operate and will continue to operate, and is still generating revenues and incurring costs.
- Verify that there were events or changes in circumstances that are indicators of impairment:
  - Review the internal financial statements that include sales and expenses attributable to the turk'y division, and verify that there was a significant decline in revenues.
  - Review the supporting documentation that shows that the company has lost two contracts. Discuss with management how they concluded that they lost these contracts to competitors, and review supporting emails or notes of discussions with these customers to verify.
  - Obtain the old contracts and inspect for the expiry dates. Calculate the lost revenue from these two contracts that were not renewed.

- Verify the carrying value of the turk'y reporting unit:
  - Obtain the list of assets and liabilities that have been included in the reporting unit. Obtain the original acquisition agreement, to ensure that all of the assets and liabilities acquired at the time are included in this list.
  - Trace each of the amounts back to the supporting general ledger accounts or subsidiary accounts, to verify the carrying amounts.
  - Ensure that the receivables and inventories have already been assessed for impairment or obsolescence. Ensure also that the PP&E assets have all been amortized to the year end and tested for impairment.
  - Take a sample of accounts receivable, inventory, and accounts payable, and trace back to the invoices or inventory item, to ensure that they only relate to the turk'y division.
  - Trace a sample of the PP&E, to ensure that it is properly designated to the turk'y division.
  - Verify that the asset retirement obligation has been adjusted to the appropriate year-end balance; that is, the amount has been accreted and future cash flows validated.
  - Agree the goodwill opening balance as at January 1, 2022, to the December 31, 2021, financial statements.
  - Recalculate the total of the carrying values for the assets and liabilities allocated to the turk'y division.

- Obtain the supporting documentation of the fair value before disposal costs, and agree it to the fair value that was used in the goodwill calculations:
  - If the fair value was calculated by management, assess the reasonableness of the assumptions used in projected future cash flows, given the external auditor's knowledge of the entity's business and available industry data, such as growth rates, etc. Also, assess the reliability of the underlying entity data used in projected future cash flows for sales, expenses, etc. (e.g., that the revenue from the two lost contracts is not included). Assess the reasonableness of the discount rate used to discount the projected future cash flows, given the external auditor's knowledge of the entity's business and available industry data.
  - If the calculation of fair value has been provided by an outside consultant, verify their credentials (competence, objectivity, and experience). Also, assess the reasonableness of assumptions and data used in the fair value calculation, as discussed above. Verify the mathematical accuracy of the valuation that supports the fair value before disposal costs.

- Recalculate the impairment loss, which is the difference between the carrying value and the fair value before disposal costs.
- Ensure that the impairment loss is shown as a separate line item on the income statement.
- Review the note disclosure that describes the circumstances leading to the impairment and the amount. Verify that the circumstances are properly noted, and the amount of the impairment loss is correct.

Supplier Note Payable

- Obtain the supplier contract in which the note payable arose. Note the date the transaction occurred, and the amount and timing of the payments. Verify the interest rate of 2% that is being charged, and the frequency of its payments.
- Obtain written confirmation from the supplier of the principal payment still due, its due date, and the interest received to date. Also, confirm the interest rate that is payable, and that interest is payable monthly.
- Verify that the outstanding balance as at December 31, 2022, agrees to the general ledger (before the adjusting journal entry to record the fair value of the note payable).
- Verify that the amount immediately due was paid on time by tracing back to the cancelled cheque or bank statement. Verify the date and amount of payment.
- Also, trace to the equipment account, to ensure that the equipment was recognized at the correct amount. Check that the amortization on the equipment for 2022 has been correctly calculated, based on the revised value of the new manufacturing equipment.
- Obtain the line of credit agreement, to verify that the effective interest rate should be prime plus 1.5%. Inspect a reliable third-party source (e.g., the Bank of Canada website), to verify that the prime lending rate was 5% on the date that the note payable was issued.
- Re-calculate the amortization schedule for the note payable.
- Verify that the correct note payable balance is showing on the balance sheet and that the interest that is shown on the income statement agrees to the calculated amount (depending on whether the effective interest rate method or straight-line method was used).
- Review the note disclosure, to ensure that it provides the required disclosures on terms, payments, and interest rate.

Subsequent Events

- Discuss with management what procedures they have followed, to ensure that all subsequent events have been identified.
- Review any board meeting minutes, to ensure that all subsequent events have been identified.

- Review any internal financial statements for the first few months after year end, to determine if any significant events occurred.
- Obtain written representation from the company's lawyer that all events subsequent to the date of the financial statements have been identified.
- Obtain a management representation letter that confirms that all known subsequent events were disclosed to the external auditor.

Grant:

- Obtain the documentation outlining that the government approved the grant, and confirm the date of the approval (February 2023) and the amount of the grant.
- Trace the receipt of the funds to the bank statements and verify the date of deposit and the amount.
- Verify that this is not included in accounts receivable at December 31, 2022.
- Review the note disclosure related to the government grant and ensure that it accurately describes the amount and reason, and date of receipt for the government grant.

Employee termination:

- Review the termination agreement signed by Frieda Gore on receipt of her cheque. Note the date of this agreement.
- Trace the withdrawal of the cheque amount from the bank account, and date that the cheque was cancelled by the bank.
- Discuss with Frieda's manager the reason for the termination, and review the supporting documentation in her employee personnel file.
- Review the legal letter that was received from Frieda's lawyer regarding the pending lawsuit, and the date that this letter was written and received by the company.
- Review the representation from Bold's lawyers regarding the pending lawsuit, and verify their conclusion on probability and amount that might be payable.
- Review the documentation supporting how the $80,000 severance was determined. Verify any evidence to support that it complies with the company's policies and industry practises, as indicated.
- Verify that the proper amount relating to the estimate of additional severance to be paid
  (i.e., $50,000) has been included in the accrued liabilities.
- Review the note disclosure, to ensure that it explains the nature of the pending lawsuit and that an accrual has been made, based on what is considered to be probable and reasonably estimated to be payable. Also ensure that there is disclosure of the exposure to loss in excess of the amount accrued.

Meals 2 Go Inc. Transaction

- Review the agreement for the purchase of the used manufacturing equipment, and verify that the purchase price was $100,000.
- Confirm the nature of the relationship between Bold and M2G by obtaining a written confirmation from Treadstone, stating their ownership percentage in M2G.
- Obtain the appraisal document on the fair value of the equipment. Determine the appraiser's credentials (competence, objectivity, and experience), and assess the reasonability of the method used to value the equipment. Verify that the appraisal valued the equipment at $150,000.
- Physically review the equipment that was acquired and verify that it is the same equipment as identified in the purchase agreement (serial number, or model number, for example).
- Confirm with M2G that the carrying value of the equipment on November 12, 2022, was $140,000 (as this is the amount that will be recorded by Bold under the related-party transaction requirements). Trace the equipment to the equipment subledger and verify the amount at which the equipment was set up (i.e., $140,000, after the adjusting entry has been recorded). If any amortization is required, test that the amortization has been correctly calculated and recognized.
- Review the related party note disclosure and verify that the related party, the relationship, and the nature of the transaction have been disclosed.

For Assessment Opportunity #9, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate discusses some audit procedures for the financial reporting issues.

Competent – The candidate discusses several audit procedures for the financial reporting issues.

Competent with distinction – The candidate discusses several audit procedures for most of the financial reporting issues.

Assessment Opportunity #10 (Depth Opportunity)

The candidate discusses internal control weaknesses in Bold's purchases and payables process, and provides recommendations to address them.

The candidate demonstrates competence in the Assurance role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core	E3 AS
4.1.1	Assesses the entity's risk assessment processes	A	A
4.1.2	Evaluates the information system, including the related processes, using knowledge of data requirements and risk exposures	B	A

CPA Map Enabling Competencies:
2.2.2 Recognizes the importance of internal controls within areas of work responsibility
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Below are the internal control weaknesses identified in the purchases and payables process (excluding inventory and payroll), the implication of the weaknesses, and the recommendation for improvement.

Weakness: Juliette, Simon, the controller, or any department manager can initiate a purchase.

Implication: Too many people can initiate an expenditure that has not been reviewed and authorized by another person in the company. The current procedure could allow a department manager to initiate an expenditure that is not a valid business expense.

Recommendation: All purchases should be authorized by Juliette, Simon, or the controller. The department manager requesting a purchase should prepare a purchase requisition, explaining the reason for the expenditure and the proposed amount. One of these three people would then sign off on the requisition as authorization of the expenditure.

Weakness: The purchaser discusses the price, quantity, and delivery dates with the supplier on a call, and a confirmation email is then sent to the supplier.

Implication: The purchaser and the supplier (who have a good relationship) can set a price that might not be optimal for the company. The purchaser and supplier could collude to give the purchaser a kickback or commission of some sort for giving the supplier the business.

Recommendation: A purchase order (PO) should be prepared by the purchaser, outlining the vendor, prices, and quantities of the purchase. The PO should be filed with the purchase requisition, to support that the expenditure has been approved by an authorized individual.

Weakness: The purchaser also signs off that the purchase has been received.

Implication: When the same person who has initiated the purchase also approves the receipt, this can lead to fraudulent expenditures. In particular, it could lead to the company paying for items that were never received but were shipped to the purchaser's own address or another address. Alternatively, the purchaser could increase the amounts received to agree to an overstated invoice.

Recommendation: There should be a separation between the person who has initiated the purchase and the person who has signed that the goods/services have been received. All goods should be delivered to a central receiving department. For services, someone other than the person who initiated/authorized the expenditure, and who is knowledgeable about the service(s) to be provided, should document that the service(s) have been satisfactorily performed. Ideally, the controller should verify with the appropriate employees in the company that the work has been completed to their satisfaction, and receive email confirmation from that employee, which is attached to the invoice.

Weakness: The AP clerk only verifies the calculations, prices, and taxes on the invoice. If there is a contract in place, the prices and quantities are matched between the invoice and contract. Where there is no contract, there is no supporting documentation to validate and support the price or quantities that were actually invoiced by the supplier. Furthermore, the only documentation of this purchase is the email, which is not printed or provided as support for the expenditure.

Implication: Where there is no contract in place, the company may be overpaying for goods and services, since there is no supporting documentation to confirm that the quantities per the invoice are what were actually received, and that the prices are what were originally agreed upon.

Recommendation: There needs to be supporting documentation of the purchase request that provides the prices and quantities/services that were to be provided. Based on the recommendations above, this would be the purchase order. The AP clerk can then match the invoice to the purchase order and the delivery slip or other receiving document.

Weakness: The AP clerk enters all invoices to be paid within 30 days. If there are discounts available, the accounts payable clerk makes note of the discount payment date in their calendar. One day prior to the discount payment date, the AP clerk goes in and resets the payment to be made on that day by EFT.

Implication: The AP clerk may enter the discount payment date incorrectly in their calendar or may forget to review their calendar for the day, causing Bold to miss out on the discount. In addition, many EFTs may not reach the supplier within one day, again causing Bold to miss the discount.

Recommendation: The discount pay date should be entered into the system when the invoice is inputted, rather than setting all invoices to be paid in 30 days. In this way, the system will trigger that the payment has to be finalized, and will ensure that the payment is made in time to get the discount.

Weakness: The AP clerk can authorize electronic transfer of payments.

Implication: The AP clerk has no signing authority, as they are not allowed to sign any cheques. Since an EFT is a direct payment from the bank account, this is similar to having signing authority on the account. The AP clerk could set up a fraudulent EFT that was not detailed on the list nor approved by the cheque signers.

Recommendation: The controller, who has signing authority, should be the only person who can authorize the final EFTs. Once the EFTs have all been approved, the controller should go into the system and authorize the electronic transfer payments. Subsequently, the AP clerk should perform a reconciliation between the EFTs issued per the bank statement to the list of EFTs submitted to the controller for payment.

For Assessment Opportunity #10, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate discusses some internal control weaknesses in the purchases and payables process, and provides recommendations to address them.

Competent – The candidate discusses several internal control weaknesses in the purchases and payables process, and provides recommendations to address them.

Competent with distinction – The candidate discusses many internal control weaknesses in the purchases and payables process, and provides recommendations to address them.

Assessment Opportunity #11 (Depth Opportunity)

The candidate reviews the sample data report from the equipment subledger for anomalies, and recommends additional audit procedures to be performed.

The candidate demonstrates competence in the Assurance role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**	**E3 AS**
4.3.6	Develops appropriate procedures, including Audit Data Analytics (ADA), based on the identified risk of material misstatement	**B**	**A**
4.3.7	Performs the work plan	**B**	**A**

CPA Map Enabling Competencies:
1.3.1 Maintains a skeptical mindset when performing assigned work
1.4.1 Performs work carefully, thoroughly and competently in accordance with relevant technical and professional standards
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Amortization is calculated monthly and includes the month of acquisition and month of disposal. In addition, Bold only capitalizes equipment that exceeds the threshold of $3,000.

Upon the review of the sample data report from the equipment subledger, the following concerns have been identified, and will require additional work.

Anomaly: OF5681 Office – The amount capitalized in 2022 of $1,600 was below the capitalization threshold of $3,000.

Issue: One item was incorrectly capitalized, as the amount was below the capitalization threshold of $3,000.

Audit procedures required:

- Review the list of additions for amounts that are less than the capitalization threshold of $3,000.
- Trace back to the invoice, to ensure that the expenditure was not a partial payment for a capital item that in total was greater than $3,000.
- From the invoice, determine the type of expense and the general ledger account that this amount should correctly be posted to.
- Inform the accounting team of the appropriate treatment, and review that the general ledger and the equipment subledger have been correctly updated, based on the findings.

Anomaly: MP2399 Manufacturing – The 2022 amortization column shows zero.

Issue: One item had no amortization taken, even though the asset is in service and has not been fully depreciated (net carrying amount is greater than the estimated residual value).

Audit procedures required:

- Review the equipment subledger for items for which there was no amortization taken.
- Verify that the asset is still in service through discussion with management and inspection.
- Obtain the supporting documentation for the useful life, and calculate the amount of amortization required in 2022.
- Inform the accounting team of the appropriate treatment, and review that the general ledger and the equipment subledger have been correctly updated, based on the findings.

Anomaly: MP1990 Manufacturing – Too much amortization has been recognized, causing the net book value to be lower than the residual value.

Issue: One item has a net book value that is less than the residual value, indicating that too much amortization has been recognized.

Audit procedures required:

- Review the equipment subledger for assets for which their net book value is less than the residual value.
- Obtain third-party evidence to support the residual value and useful life of the asset.
- Calculate the amount of amortization that should have been recognized, based on the residual value and the expected useful life.
- Inform the accounting team of the appropriate treatment, and review that the general ledger and the equipment subledger have been correctly updated, based on the findings.

Anomaly: MP0047 Manufacturing – Shows that the asset has been in use for 120 months, even though its useful life is 108, and amortization of $36,384 was recorded in 2022.

Issue: There is an inconsistency in the report, as one asset has been in service for 12 months longer than its useful life; however, amortization was still recorded in 2022.

Audit procedures required:

- Review the equipment subledger for items for which their “months in service” is greater than their “useful life in months.”
- For each item identified, inspect the equipment subledger to determine the net book value at the start of the year (January 1, 2022). If the balance was zero, the asset was already fully amortized and no additional amortization should be recorded in 2022. Any amortization that was recorded in 2022 should be reversed.
- Inform the accounting team of the appropriate treatment, and review that the general ledger and the equipment subledger have been correctly updated, based on the findings.

Anomaly: CM3118 Computers – Shows that the asset has been in service for seven months, so 2022 amortization should have been $681 ($3,500/36 months × 7 months). However, the amortization recorded in 2022 was $2,410.

Issue: Too much amortization has been recognized on an asset purchased in the current year.

Audit procedures required:

- Identify any assets that have 2022 amortization in excess of calculated expectation.
- For each asset identified, confirm whether the asset still exists and is being used, through discussion with management and inspection of the physical asset.
- Obtain shipping documentation, to confirm the date that the equipment was received, and discuss with management when it was put into service. Calculate the months in service and agree the calculation to the equipment subledger.
- Obtain the supporting documentation for the useful life, and calculate the amount of amortization required in 2022.
- Inform the accounting team of the appropriate treatment, and review that the general ledger and the equipment subledger have been correctly updated, based on the findings.

Anomaly: MP3209 Manufacturing – This asset was acquired in the current year, but no amortization was recognized in 2022.

Issue: No amortization was recognized for a new capital asset, even though it was in service for ten months during the year.

Audit procedures required:

- Review additions that were made during the year for which there was no amortization recognized.
- Obtain shipping documentation, to confirm the date that the equipment was received, and discuss with management when it was put into service. Calculate the months in service and agree the calculation to the equipment subledger.
- Obtain the supporting documentation for the useful life, and calculate the amount of amortization required in 2022.
- Inform the accounting team of the appropriate treatment, and review that the general ledger and the equipment subledger have been correctly updated, based on the findings.

Anomaly: MP6664 Manufacturing, OF8115 Office, OF3343 Office – These assets show months in service of less than 12 months; however, no associated 2022 addition is noted in the subledger.

Issue: The subledger indicates that the assets were in use for less than 12 months, but they are not noted as additions in 2022. Therefore, the 2022 additions may be understated or the months in service for the assets may be incorrect.

Audit procedures required:

- For each asset identified, confirm whether the asset exists and is being used, through discussion with management and inspection of the physical asset.
- Obtain shipping documentation, to confirm the date that the equipment was received, and discuss with management when it was put into service. Calculate the months in service and agree the calculation to the equipment subledger.
- Obtain the supporting documentation for the useful life, and calculate the amount of amortization required in 2022.
- Inform the accounting team of the appropriate treatment, and review that the general ledger and the equipment subledger have been correctly updated, based on the findings.

Anomaly: MP6733 Manufacturing – The asset was disposed of in June 2022, but the subledger still includes a carrying value as at December 31, 2022.

Issue: Bold's equipment may be overstated as at December 31, 2022, due to including a net carrying amount for an asset that was disposed of during the year.

Audit procedures required:

- Identify assets disposed of during 2022 (by the month and year disposed).
- Examine the supporting documents, to verify the date of disposal.
- For the disposed asset, calculate the amount of amortization that should have been recognized, and verify that this agrees to the amount of amortization recognized.
- Inform the accounting team of the appropriate treatment, and review that the general ledger and the equipment subledger have been correctly updated, based on the findings.

Anomaly: OF2779 Office – The asset was disposed of in January 2022, but a full year of amortization was recognized. In addition, the subledger still includes a carrying value as at December 31, 2022.

Issue: Too much amortization was recognized on an asset that was disposed of during the year. Also, equipment may be overstated as at December 31, 2022, due to including a net carrying amount for an asset that was disposed of during the year.

Audit procedures required:

- Identify assets disposed of during 2022 (by the month and year disposed).
- Examine the supporting documents, to verify the date of disposal.

- For the disposed asset, calculate the amount of amortization that should have been recognized, and verify that this agrees to the amount of amortization recognized.
- Inform the accounting team of the appropriate treatment, and review that the general ledger and the equipment subledger have been correctly updated, based on the findings.

Anomaly: CM1773 Computers – The net book value is negative, but the asset is still being amortized.

Issue: The subledger indicates that the asset was in use for 51 months, but its useful life is only 36 months. Therefore, too much amortization has been recognized on an asset, as shown by the negative net book value.

Audit procedures required:

- Identify any assets that have a negative net book value balance.
- For each asset identified, confirm whether the asset still exists and is being used, through discussion with management and inspection of the physical asset.
- If the asset still exists, calculate the amount of excess amortization that has been recognized in the current year (and previous years, if this is the case):
  - Inform the accounting team of the appropriate treatment and review that the general ledger and the equipment subledger have been correctly updated, based on the findings (i.e., correction of an error is recorded retroactively).
- If the asset no longer exists, confirm when the asset was disposed of, and review supporting evidence of this:
  - If disposed of in the current year or previous year, calculate the amount of amortization that should have been recognized in the current and/or previous year, as well as the gain or loss on disposal.
  - Inform the accounting team of the appropriate treatment, and review that the general ledger and the equipment subledger have been correctly updated, based on the findings.

Anomaly: CM9004 Computers – The useful life of these computers is 120 months.

Issue: This asset's useful life appears to be unrealistically long, as other computer assets typically have a useful life that ranges from 36 to 48 months.

Audit procedures required:

- Obtain the purchase invoice, to determine the type of computer asset.
- Discuss with management how the useful life was determined, and how technology obsolescence was considered. Obtain third-party evidence to corroborate the useful life.

- If the evidence indicates that the useful life is too long and should be revised, recalculate the amount of amortization that should have been taken from the date of purchase.
- Inform the accounting team of the appropriate treatment, and review that the general ledger and the equipment subledger have been correctly updated, based on the findings.

Anomaly: MP2225 Manufacturing – There are two assets on the equipment subledger report with the same asset ID.

Issue: This may be a duplicate entry in the equipment subledger, or the asset ID is not accurate or unique for one of the assets (given that the two assets listed as MP2225 have different original costs and months in service).

Audit procedures required:

- For the two assets listed as MP2225, confirm whether the assets exist and are being used, through discussion with management.
- Inspect the physical assets and identify the asset ID for each asset, to determine if they are both noted as MP2225.
- Obtain shipping documentation, to confirm the date that the equipment was received, and discuss with management when it was put into service. Calculate the months in service and agree the calculation to the equipment subledger.
- Obtain the supporting documentation for the useful life, and calculate the amount of amortization required in 2022.
- Inform the accounting team of the appropriate treatment, and review that the general ledger and the equipment subledger have been correctly updated, based on the findings.

For Assessment Opportunity #11, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate identifies some anomalies in the equipment subledger report or recommends some additional audit procedures to be performed.

Competent – The candidate identifies some anomalies in the equipment subledger report and recommends some additional audit procedures to be performed.

Competent with distinction – The candidate identifies several anomalies in the equipment subledger report and recommends several additional audit procedures to be performed.

Assessment Opportunity #12 (Depth Opportunity)

The candidate recommends audit procedures to verify that Gretta complies with the provincial regulations.

The candidate demonstrates competence in the Assurance role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core	E3 AS
4.3.6	Develops appropriate procedures, including Audit Data Analytics (ADA), based on the identified risk of material misstatement	B	A

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Bold is considering the acquisition of a mobile food service truck business, Gretta. After review of the provincial regulations, we have provided below the audit procedures for testing Gretta's compliance with the regulations.

Reg 4.5.7 It is the responsibility of the operator of a Mobile Food Service Establishment (MFSE) to ensure that all employees are aware of the requirements and guidelines of the Mobile Food Handling Establishments Regulations, and acknowledge this at least annually.

Procedures:

- Select a sample of employee files and verify that there is a signed document indicating that the employee has read and understood the policies and agrees with their compliance. This supports the requirement that employees are aware of the procedures that should be followed, and are reminded that the policies should be followed:
  - Verify that there is a signed document for the current year.
  - Verify that there is a signed document for each year in which the employee has been employed.
- Review the most up-to-date employee handbook. Ensure that there are sections that provide details on requirements for food handling and preparation, ethical behaviour, and how to deal with customer complaints that are compliant with the most recent Mobile Food Handling Establishments Regulations. This supports the requirement that all employees are aware of the requirements and guidelines.
- Verify that the date the policies are updated has been documented in the policies, and is dated no more than 12 months ago. This supports that the regulatory requirement for updating employees on the regulations has been completed at the policy level.
- Check a sample of regulatory updates from the authorities, and ensure that these changes have been made in the most recent edition of the policies manual. This ensures that the policies are up to date, as required by the regulations.

Reg 4.6.2 MFSE employees are to be trained in the proper handling and preparation of food to ensure food safety. This training is to be completed every six months. There are standardized videos to be used by MFSEs to facilitate this training.

Procedures:

- Confirm with management that they have obtained the standardized videos.
- Review the training course materials and ensure that the content includes the standardized videos.
- Verify the date of the video update, and confirm with the regulatory authorities whether this is the most up-to-date video available. This procedure supports compliance that the correct videos are being used for training.
- Discuss with management the process for keeping track of which employees have completed the training, and when. Ask management to provide a list of all employees who have completed the training during the year:

  - Select a sample of employees from this list, and confirm that the training was received. This could be verified through a certificate of completion, electronic log of training courses completed, etc.
  - Select a sample of food truck employees from payroll, and verify that they viewed the training videos every six months.
  - These procedures ensure that employees are completing the training as required.

Reg 4.8.3 At all times, at least one staff member preparing food in the MFSE must hold a valid Food Handler Certificate.

Procedures:

- Select a sample of daily schedules from the past year and identify the employee that is noted as holding a valid Food Handler Certificate. Ensure that the selection includes samples from different food trucks, as the company has 10 different trucks operating.
- Trace back to the daily shift sheet, and ensure that this employee did actually work on that truck during the period indicated.
- Trace to the employee personnel file, and obtain evidence that they hold a valid certificate
  (i.e., not expired on the date of testing).
- These procedures ensure that the company is compliant with using properly certified employees to prepare the food, and that the certification is valid.

Reg 5.1.3 Refrigerators must be maintained between -2°C and +2°C and freezers must be maintained at a temperature at or below -18°C. Temperatures are to be checked every 12 hours. Any deviations are to be immediately followed up and supporting documentation completed that indicates what was done.

Procedures:

- Select a sample of temperature reports from various days in the past year and from various food trucks:
  - Verify that the temperatures on the fridges and freezers have been checked at 12-hour intervals. This provides evidence that the daily testing of the temperature, as required, is being completed.
  - Verify that an employee's signature or initials are on the record. This provides evidence that the employee who completed the check has documented the work done, as required by the regulations.
  - Trace this employee back to the daily shift sheet to ensure that they were working on that day during that time period. This provides evidence that this is a valid employee who was working that day on that truck.
  - Note where there were deviations with the allowable range. Verify that each discrepancy was followed up on, and trace to the supporting documentation to

assess the reasonability of what was done, and verify that it is dated and initialled by the employee that they did the follow-up. This provides evidence that the company is following proper procedures whenever discrepancies have been found.

Reg 7.2.1 If items are sold as "vegan," the ingredients must be sourced from approved vegan vendors.

Procedures:

- Obtain the list of approved vegan vendors directly from the relevant authority.
- From the purchases subledger, select a sample of food purchases and obtain the related purchase invoice. Inspect the invoice to determine the supplier's name and trace the supplier back to the approved vegan vendors list. This procedure provides evidence that Gretta is purchasing only from approved vendors.

For Assessment Opportunity #12, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate recommends audit procedures for testing compliance with some of the regulatory requirements.

Competent – The candidate recommends audit procedures for testing compliance with several of the regulatory requirements.

Competent with distinction – The candidate recommends audit procedures for testing compliance with most of the regulatory requirements.

Assessment Opportunity #13 (Depth Opportunity)

The candidate comments on the 2023 draft internal audit plan.

The candidate demonstrates competence in the Assurance role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core	E3 AS
4.3.5	Assesses the risks of the project, or, for audit engagements, assesses the risks of material misstatement at the financial statement level and at the assertion level for classes of transactions, account balances, and disclosures	B	A
4.3.6	Develops appropriate procedures, including Audit Data Analytics (ADA), based on the identified risk of material misstatement	B	A

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

The following is a critique of the 2023 internal audit plan.

Internal audit is concerned with operational efficiencies and effectiveness, and ensuring that all of the company's policies and procedures are consistently followed. The internal audit plan should be developed after assessing areas of risk, the results of prior audits, and areas of changes in processes, policies, procedures, or people.

Given these criteria, the following are concerns with the draft internal audit plan:

- Internal audit will assess expenses and related processes that have not been tested in the last five years: Five years appears to be an arbitrary selection criterion. Although the amount of time since the last time the item was internally audited is relevant, there are other relevant selection criteria (see below).
- Internal audit will review divisions and departments where there has been no change in senior management and little staff turnover in 2022: Risk of non-compliance and inefficiencies are increased when there have been changes in senior management or staff turnover. Selecting areas where there has been a change in management or staff allows the internal auditor to ensure that policies and procedures are still being consistently followed throughout the year. Changes in staff can lead to changes in how the business is conducted, which may be contrary to corporate policies. In addition, changes in staff can lead to operational inefficiencies if the staff are new and unfamiliar with the work, or improperly trained. Therefore, only selecting divisions and departments where there is no change in senior management or in staff will not be sufficient. The selection criteria should be changed to audit divisions/departments where there *have* been changes in management or staff.

- Internal audit will only test expense accounts that are higher than 2022 materiality: Materiality is set by the external auditor and is not relevant in internal audit's planning process. As noted, external auditors will not be relying on the work of the internal audit department. Therefore, there is no need to ensure coverage of accounts that are material for the purpose of the external audit. In addition, the materiality threshold set by external auditors is often quite high; internal auditors should have a significantly lower threshold for what they choose to examine. As discussed below, there are many other criteria that need to be considered in selecting the areas for internal audit testing.
- Expenses and revenues for the turk'y division will not be tested, since the division was acquired within the past five years: This again is not a relevant criterion. The turk'y division should be part of the internal audit plan because, under the previous owners, there likely were different policies and procedures. As a result, it is even more important that the areas relevant to acquired divisions be internally audited in the years immediately following acquisition.

There were several factors that did not seem to be considered in developing the internal audit plan. These include:

- whether there have been any changes that occurred in systems, processes, policies, or procedures.
- the volume of transactions, which should also be a criterion since, with higher volumes, there is an added risk that errors can occur or that policies and procedures have not been followed.
- areas where deficiencies were found in prior years; internal audit needs to follow up in these areas. For example, based on the earlier analysis, there are weaknesses in the purchases and payables process, where recommendations were made. Internal audit needs to follow up, to ensure that these recommendations have been implemented.

In addition, there are concerns with the audit areas selected and/or the sample size proposed.

Audit Area	**Sample Size/Selection**	**Critique**
Revenue	10 contracts with new customers in the chick'n division	This is too limited for an audit of revenue. All divisions should be included, and selection should include existing customers and new customer contracts.

Audit Area	Sample Size/Selection	Critique
Repairs and maintenance	Senior manager of each department to select 10 transactions	Having the senior manager select the transactions for internal audit is a conflict of interest. The internal auditor needs to make their own selection, after deciding the objective of the audit and what they want to test and review. This could be related to specific suppliers, contractual commitments, pricing policies, etc.
Software licence agreements and lease agreements	One software licence agreement that was renewed in 2023	It is also important to review all existing software licences and leases, to ensure that Bold is not violating any existing contractual agreements. In addition, given that Bold only has 16 agreements for leases and licences, internal audit may have capacity to review the full population.

For Assessment Opportunity #13, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to comment on the draft 2023 internal audit plan.

Competent – The candidate comments on the draft 2023 internal audit plan.

Competent with distinction – The candidate thoroughly comments on the draft 2023 internal audit plan.

DAY 2 ‑ MARKING GUIDE ‑ FINANCE ROLE
BOLD PLANT FOODS LIMITED (BOLD)

To: Yasmin
From: CPA
Subject: Finance-related issues

See Common Marking Guide for the Common Assessment Opportunities #1 to #6.

Assessment Opportunity #7 (Depth Opportunity)

The candidate prepares a valuation of Bold using the capitalized cash flow method, and calculates Treadstone's annualized return on its investment.

The candidate demonstrates competence in the Finance role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core	E2 FIN
5.4.2	Applies appropriate methods to estimate the value of a business	B	A

CPA Map Enabling Competencies:
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Valuation of Bold using the capitalized cash flow method is as follows:

Normalization of EBITDA

	2022	
Income before taxes	1,893,000	
Normalizing items:		
Severance	80,000	
Treadstone consulting fees	100,000	= $100 × 1,000 hours
Market rate for consulting fees	(250,000)	= $250 × 1,000 hours
Abnormal waste included in COGS	1,085,000	= 1% × 108,500,000
2022 systems crash	446,500	
Normal upgrades and training	(200,000)	
Normalized earnings before taxes	3,154,500	

Interest expense	1,237,000	
Accretion expense	50,000	
Gain/loss on disposal	22,000	
Amortization	3,930,000	= 3,899,000 + 31,000
Normalized EBITDA	$ 8,393,500	

Capitalization schedule		
Normalized EBITDA	8,393,500	
Income taxes @ 27%	(2,266,245)	
Normalized cash flow after taxes	6,127,255	
Sustaining capital reinvestment, net of tax shield	(2,600,000)	
Normalized maintainable discretionary cash flows	3,527,255	
Weighted average cost of capital	12.0%	
Long-term growth rate	2.0%	
Capitalization multiple	10.00	= 1 / (12.0% - 2.0%)
Capitalized discretionary cash flows	35,272,550	
PV of UCC tax shield on existing assets	1,376,000	
Add the value of redundant assets:		
Patents (Note 1)	1,094,625	
Total value of the firm	37,743,175	
Less repayment of interest-bearing debt:		
Asset retirement obligation	(1,398,000)	
Bank indebtedness	(4,000,000)	
Long-term debt (FMV)	(13,200,000)	
Note payable – supplier (FMV)	(1,858,203)	
Equity value	$ 17,286,972	
Price per share	$ 345.74	Prefs fully participating
Value of 30,000 shares owned by Treadstone	$ 10,372,183	

Notes:

1. After taking into account the latent taxes and disposition costs, the unused patents are treated as redundant.

Fair market value	A	$1,400,000
Less: selling costs @ 10%	B = A × 10%	(140,000)
Net proceeds	C = A - B	1,260,000
Adjusted cost base	D	35,000
Capital gain (loss)	E = C - D	1,225,000
Taxable capital gain (loss) @ 50%	F = E × 50%	612,500
Estimated taxes @ 27%	G = F × 27%	165,375
Latent taxes and selling costs	L = B + G	305,375
FMV after latent taxes and disposition costs	A - L	$1,094,625

Based on the above analysis, the current fair market value of each preferred and common share of Bold is $346 per share. Based on this value, Treadstone's annualized return to date is 6.7% (RATE given NPER = 4, PMT = 0, PV = $8,000,000, FV = $10,372,183). This is well below the target annual return of 20% that Treadstone would like to achieve.

For Assessment Opportunity #7, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to prepare a valuation of Bold using the capitalized cash flow method.

Competent – The candidate prepares a valuation of Bold using the capitalized cash flow method, and attempts to calculate Treadstone's annualized return.

Competent with distinction – The candidate prepares an accurate valuation of Bold using the capitalized cash flow method, and calculates Treadstone's annualized return.

Assessment Opportunity #8 (Depth Opportunity)

The candidate prepares a capital budget analysis for the equipment replacement, discusses assumptions and risks that would affect the analysis, and provides a recommendation.

The candidate demonstrates competence in the Finance role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**	**E2 FIN**
5.3.1	Develops or evaluates capital budgeting processes and decisions	B	A

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Quantitative Analysis

	Time 0	2023	2024	2025	2026	2027
New machine – units produced		960,000	1,020,000	1,080,000	1,080,000	1,080,000
Old machine – units produced		820,000	820,000	820,000	820,000	820,000
Incremental units produced		140,000	200,000	260,000	260,000	260,000
Incremental cash inflow		294,000	420,000	546,000	546,000	546,000
Cumulative units produced		960,000	1,980,000	3,060,000	4,140,000	5,220,000
Initial investment						
Capital expenditures – new machine	(1,400,000)					
Salvage of old machine	320,000					
PV of CCA tax shield – net (Note 1)	192,013					
Annual operating after-tax cash flows						
Cash inflows from increased sales		294,000	420,000	546,000	546,000	546,000
Labour savings		190,000	190,000	190,000	190,000	190,000
Maintenance and hydro – new (Note 2)		(620,000)	(620,000)	(620,000)	(620,000)	(620,000)
Maintenance and hydro – old (Note 2)		380,000	380,000	380,000	380,000	380,000
Recalibration		0	0	(250,000)	0	0
Annual incremental cash flows before tax		244,000	370,000	246,000	496,000	496,000
Income tax		(65,880)	(99,900)	(66,420)	(133,920)	(133,920)
After-tax annual operating cash flows		178,120	270,100	179,580	362,080	362,080
Investment in working capital	(120,000)					120,000

	Time 0	2023	2024	2025	2026	2027
Salvage of new machine						970,000
Salvage foregone of old machine						(40,000)
PV of CCA tax shield lost on net salvage (Note 3)						(202,500)
Net incremental cash flow	(1,007,987)	178,120	270,100	179,580	362,080	1,209,580
PV factor – 12% discount rate	1.0000	0.8929	0.7972	0.7118	0.6355	0.5674
PV of cash flows	(1,007,987)	159,043	215,324	127,825	230,102	686,316
Net present value	410,623					

Notes:

1. PV of CCA tax shield formula

   = [Net investment cost × CCA rate × tax rate] / [(CCA rate + discount rate)] × [(1 + 1.5 (discount rate)) / (1 + discount rate)]
   = [($1,080,000 × 20% × 27%] / (20% + 12%)] × [1.165 / 1.12]

2. Maintenance contract on new machine assumed to include electricity costs.

3. PV of CCA tax shield lost formula for assets sold

   = [$930,000 × 50% × 27%] / [(50% + 12%)]

Based on the quantitative analysis, since the NPV is positive, the new machine should be purchased, and the old machine sold.

Qualitative Analysis

There are a few assumptions and risks that could impact the capital budgeting analysis:

- The basis for, and reasonability of, Bold's production estimates are unclear; demand for the product and/or machine capacity limitations could impact the volumes that Bold actually produces and sells each year.
- The new machine requires that Bold commit to an annual maintenance contract and warranty at a fixed price. The manufacturer only guarantees that the staff will be onsite to inspect the machine within 72 hours, which is likely longer than the time it would have taken for Bold's internal staff to do the same. As such, this will likely result in additional downtime, which will decrease the number of units produced by the new machine, and therefore lower the NPV.
- The 72-hour service guarantee only applies if there is no inclement weather. The term "inclement weather" needs to be defined; it is not clear if this relates to rain, snow, or other weather activity. This gives the manufacturer an "out" if they are unable to meet the 72-hour service guarantee, which would create more downtime.
- The annual service contract and warranty only cover service and repairs that are not due to negligence, or which is inflicted deliberately; it is not clear who determines this, and what the criteria is for this determination. If the manufacturer claims that the machine has broken due to negligence or deliberate actions, they could refuse to repair it or charge Bold an additional fee to repair it. This could lead to additional repair cost for Bold, and downtime (if Bold chooses to question the manufacturer's determination), which would lower the NPV of the new machine.
- Bold had spare parts on hand for fixing the old machine. However, for the new machine, the spare parts are part of the service contract, and will not be on hand. This could increase the downtime for the new machine if it takes longer to get the spare parts that are needed, decreasing the NPV. Note that there could be a market for the existing spare parts, which would increase the NPV.
- Bold will need to lay off employees, to be able to realize the labour savings, given that there are no other roles to which these employees can be redeployed; severance costs related to these layoffs have not been factored into the analysis, and would lower the NPV.
- The new machine will require recalibration that will result in downtime between two and seven days. It is not clear how long this downtime will be (two to seven days is a large range), and it has not been factored into the analysis. The downtime would lower the NPV of the new machine.

- The manufacturer believes the machine will be worth $970,000 in five years; this seems high for manufacturing equipment, especially given that the existing machine is five years old and has a fair value of $320,000. In addition, the new machine is set up to Bold's specifications; there may be significant cost associated with setting up the machine to a different company's specifications, which would lower its value. The salvage value of the machine has a significant impact on the NPV; decreasing the salvage value would lower the NPV.

Recommendation

Although the NPV is positive, Bold should ensure that it is comfortable with the risks and assumptions. If so, Bold should proceed with the replacement of the old machine.

For Assessment Opportunity #8, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts a capital budget analysis for the equipment replacement.

Competent – The candidate prepares a capital budget analysis for the equipment replacement, discusses some assumptions and risks, and provides a recommendation.

Competent with distinction – The candidate prepares a thorough capital budget analysis for the equipment replacement, discusses various assumptions and risks, and provides a recommendation.

Assessment Opportunity #9 (Depth Opportunity)

The candidate calculates the cash conversion cycle.

The candidate demonstrates competence in the Finance role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core	E2 FIN
5.2.1	Evaluates the entity's cash flow and working capital	A	A

CPA Map Enabling Competencies:
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

The first step is to calculate the cash cycle, and assess how the company compares to the industry averages.

(All figures in thousands of Canadian dollars)	2022	Industry Average	Difference	Cash Flows Required
Days in receivables Average receivables / sales × 365	[(10,404 + 9,044) / 2] / 108,500 × 365 = 33 days	30	3	3 days × $108,500 / 365 = $892
Days in inventory Average inventory / cost of goods sold × 365	[(12,403 + 10,355) / 2] / 75,450 × 365 = 55 days	50	5	5 days × $75,450 / 365 = $1,034
Days in payables Average payables / cost of sales × 365	[(15,204 + 13,442) / 2] / 75, 500 × 365 = 69 days	60	(9)	9 days × $75,500 / 365 = $1,862

Bold's cash conversion cycle in 2022 is 33 + 55 - 69 = 19 days.

Bold just revised its credit terms with its customers so that, effective in 2023, 40% of its customers have credit terms of 30 days and 60% have credit terms of 45 days. Assuming that customers pay on time, this would result in a weighted-average days in receivable of 39 days (40% × 30 days + 60% × 45 days).

Assuming no other changes to Bold's working capital, Bold's cash conversion cycle in 2023 would increase to 39 + 55 - 69 = 25 days.

Accounts Receivable

Bold’s collection of its receivables is slower than the industry average, and is going to be collecting its receivables even more slowly with the revised credit terms. While extending more credit can increase sales by providing more companies with the ability to purchase, it can also increase bad debts.

Given that Bold has just revised its credit terms, it will likely be difficult for Bold to revise them again. However, to move this ratio closer to the industry average, Bold could consider moving all new customers to a 30-day credit term, to lower its weighted average days in receivables.

Inventory

Bold’s production process is slower than the industry average; the purchase of the automated machine (and other similar machinery) could improve its days in production. Bold stores five days’ worth of finished product, on average (compared to 15 days for the industry), due to Bold’s limited production capacity, and has not been able to meet the demand from national restaurants and grocery chains.

Bold should invest in increasing its production capacity and warehouse space, as it could likely increase revenues by better meeting customer demand. Increasing production capacity could also result in higher economies of scale, allowing Bold to increase its margins and profitability and/or reduce prices, and to better its customers’ desired price point.

Accounts Payable

Bold’s weighted average days in payables (assuming that it pays suppliers when invoices are due) should be approximately 60 days. However, Bold’s actual days in payables is 69 days. This suggests that Bold is paying its suppliers late, which could result in late charges or bad supplier relationships. Bold should ensure that its suppliers are paid in a timely manner, to maintain positive relationships and reduce any late fees it has been paying.

The industry average days in payables is shorter than Bold’s actual days in payables, and equal to Bold’s payment terms. This suggests that its competitors are paying their suppliers on time.

If Bold brought its working capital to the industry average, it would generate cash of $892,000 + $1,034,000 - $1,862,000 = $64,000, based on the 2022 balances.

For Assessment Opportunity #9, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to calculate Bold's cash conversion cycle or discusses some relevant working capital considerations.

Competent – The candidate calculates the cash conversion cycle, discusses some relevant working capital considerations, and attempts to calculate the net cash impact of bringing Bold's working capital to the industry average.

Competent with distinction – The candidate accurately calculates Bold's cash conversion cycle, discusses many relevant working capital considerations, and calculates the net cash impact of bringing Bold's working capital to the industry average.

Assessment Opportunity #10 (Depth Opportunity)

The candidate prepares a quarterly cash flow and concludes on the maximum amount of additional short-term financing that is required.

The candidate demonstrates competence in the Finance role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**	**E2 FIN**
5.2.1	Evaluates the entity's cash flow and working capital	A	A

CPA Map Enabling Competencies:
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

We have calculated Bold's cash flow for the next three quarters, using industry working capital ratios (i.e., 30 days in receivables and 60 days in payables on cost of goods sold, with other expenses paid as incurred). We have also assumed a 90-day quarter, as it was indicated that this is what the company uses.

2023	Q2	Q3	Q4
Accounts receivables			
Opening balance	$ 10,207	$ 9,133	$ 9,533
Sales	27,400	28,600	30,400
Collections – opening balance	(10,207)	(9,133)	(9,533)
Current months' sales (60/90)	(18,267)	(19,067)	(20,267)
Closing balance (30/90 days of sales)	$ 9,133	$ 9,533	$ 10,133
Accounts payable			
Opening balance	$ 12,200	$ 12,733	$ 14,267
Cost of goods sold	19,100	21,400	23,600
Payments – opening balance	(12,200)	(12,733)	(14,267)
Current purchases (30/90)	(6,367)	(7,133)	(7,867)
Closing balance (60/90 days)	$ 12,733	$ 4,267	$ 5,733
Cash inflows (outflows)			
Collection of receivables	$ 28,474	$ 8,200	$ 9,800
Payment related to COGS	(18,567)	(19,866)	(22,134)
Payment of other expenses	(6,500)	(7,000)	(7,500)
Capital expenditures	(2,400)		
Long-term debt interest (Note 1)	(231)	(226)	(216)
Line of credit interest (Note 2)	(65)	(65)	(65)
Long-term debt principal		(1,000)	
Net cash inflow (outflow)	711	43	(115)
Opening cash balance	1,400	2,111	2,154
Closing cash balance	$ 2,111	2,154	2,039

Note 1: Long-term debt monthly interest payments

April: $15,300 × 6%/12	77
May	77
June	77
April to June	231
July	77
Aug	77
Sept: $14,300 × 6%/12	72
July to Sept	226
Oct	72
Nov	72
Dec	72
Oct to Dec	216

Note 2: Line of credit interest is 4,000 × 6.5% × 3/12 = 65

As seen above, the company will not need additional short-term financing in 2023, but has a declining cash balance. If this continues, Bold may need additional financing in 2024 to support its ongoing cash flow requirements.

For Assessment Opportunity #10, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to prepare the quarterly cash flow.

Competent – The candidate prepares the quarterly cash flow and concludes on the amount of additional short-term financing that is required.

Competent with distinction – The candidate accurately prepares the quarterly cash flow and concludes on the amount of additional short-term financing that is required.

Assessment Opportunity #11 (Depth Opportunity)

The candidate assesses the two potential sources for long-term financing, from both Bold's and the shareholders' perspectives, and makes a recommendation.

The candidate demonstrates competence in the Finance role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core	E2 FIN
5.2.3	Evaluates sources of financing	B	A

CPA Map Enabling Competencies:
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions
6.3.3 Applies decision criteria to choose among viable alternatives

Bold requires an additional $10 million in order to continue to invest in increasing its production capacity and generating economies of scale. Two potential sources of financing are available.

Planet Earth Ethical Fund

From Bold's perspective

- Bold has confirmed that its proposed use of the funds will be eligible for the loan. However, if it decides to use these funds differently, there is a risk that the loan would not be fully approved. Therefore, this loan can only be used for the purposes intended.
- The convertible loan will bear interest at 5% payable annually, which will result in $500,000 of annual interest payments.
- The total principal amount of $10 million, if the bond is not converted, will become fully repayable in five years. This relieves Bold of using annual operating cash flows to make these payments over the next five years, and frees up annual cash for other uses. At the time of maturity, the company could refinance the debt if sufficient cash is not available to pay off the principal owing.
- The loan is convertible at $570 per share. Based on the calculation made earlier, this represents about a 65% premium on the current price of $346. The shares will not be converted unless the share price is higher than the conversion price. If the company is successful in increasing its revenues and cash flows, this share price may be attained within the five-year term of the loan. If converted, this would result in 17,544 ($10 million / $570) common shares to be issued. This has implications for the shareholders (see below).
- The shares are convertible at the holder's option, which means that neither Treadstone nor the common shareholders can stop this from happening, once the lender makes the decision.
- Bold must submit audited financial statements. This should not be a problem, as annual audited statements are currently being prepared.
- No dividends can be paid while the loan is outstanding. With this covenant, the company cannot pay any dividends on the preferred or common shares. As a result, Treadstone would not be able to receive any return on its investment by way of dividend income during this period, although the 3% preferred annual dividends will accumulate and be paid at some later date.
- Periodically, Planet Earth representatives will attend at Bold's manufacturing facilities to observe the operations. While this could be disruptive to Bold's production process, the overall impact should be minimal.
- With this loan, Bold will have another investor that management will have to answer to. If their objectives are not aligned with those of Treadstone and the other shareholders, this could negatively impact Bold's operations, due to a lack of clear direction.

- If converted, Planet Earth will own 26% of the outstanding shares (see below) and may want representation on the board proportional to its ownership interest (i.e., one of four directors). This creates the risk of conflicting goals and objectives, particularly given Planet Earth's environment-focused objectives compared to Treadstone's return-focused objectives.

From the shareholders' perspectives

As per the shareholders' agreement, if shares are issued at a price below fair market value, Treadstone can purchase enough shares at the same low price to maintain its 60% ownership. Therefore, if the bonds are converted, the following table shows the impact on percentage of ownership if Treadstone purchases, or does not purchase, additional shares in order to retain its 60% ownership.

Shareholder	Number of Shares	Percentage of Ownership	Number of Shares Required Based on Shareholders' Agreement	Percentage of Ownership
Treadstone	30,000	44.4%	56,315(Note 1)	60.0%
Simon	10,000	14.8%	10,000	10.7%
Juliette	10,000	14.8%	10,000	10.7%
Planet Earth	17,544	26.0%	17,544	18.6%
	67,544	100.0%	93,859(Note 1)	100.0%

Note 1: In order for Treadstone to retain 60% of shares, it could purchase more shares at the price of $570 when the shares are converted. The number of shares to be purchased by Treadstone would be:

30,000 + X / (67,544 + X) = 60%
30,000 + X = 40,526 + 0.6X
0.4X = 10, 526
X = 26,315

Total new number of shares owned by Treadstone = 30,000 + 26,315 = 56,315

Total shares outstanding (both preferred + common) = 50,000 + 17,544 + 26,315 = 93,859

As can be seen above, if Treadstone does not purchase any additional shares, its ownership percentage drops to 44.4%. Although Treadstone would continue to own the largest block of shares, it would no longer have a majority interest. If Treadstone wants to retain its 60% ownership, it will have to invest an additional $14,999,550 (26,315 × $570).

Note that the shareholders' agreement is not clear on whether Treadstone is permitted to only buy up to a 51% interest in order to maintain voting control.

However, the decision to invest more funds does not need to be made until it is known whether Planet Earth is going to convert, and this could be up to five years from now. At that time, Treadstone will have a better understanding of whether it wants to invest further, based on Bold's performance. However, as Planet Earth would only convert if the market value of Bold's shares exceeds the conversion price, it is likely that Treadstone will want to make a further investment in Bold if it can do so at a price below the fair market value.

From Simon's and Juliette's perspective, the conversion of the convertible bond is dilutive in voting percentage, which drops from 20% down to 14.8%. This percentage worsens if Treadstone invokes the provision to invest in more shares, whereby each shareholder's voting percentage falls to only 10.7%. In addition, the value per share is also diluted, as additional shares will be issued at a price below the prevailing market price.

Treadstone's Offer

Treadstone has offered to match the terms and conditions of this financing. However, the significant differences are as follows:

- There will likely be no restriction on the expenditures, to meet certain sustainability requirements.
- For the Planet Earth loan, no dividends can be paid while the loan is outstanding. Treadstone will likely change this so that there is no restriction on dividend payments, if and when there is sufficient cash to pay the dividends.
- Since Treadstone is already a shareholder and an involved investor, if the shares are converted, there will be little impact felt at the board level (in contrast to having a fourth shareholder if Planet Earth converted).

Therefore, if the bonds are converted, the following table shows the impact on percentage of ownership if Treadstone purchases, or does not purchase, additional shares in order to retain its 60% ownership.

Shareholder	Number of Shares	Percentage of Ownership
Treadstone	47,544	70.4%
Simon	10,000	14.8%
Juliette	10,000	14.8%
	67,544	100.0%

As seen above, Treadstone's voting percentage will increase to 70.4% (which gives Treadstone an ownership interest above the 66 2/3% typically required for passing special resolutions), and Simon's and Juliette's will both decline to 14.8%. This is better than the Planet Earth scenario above, where their ownership could dilute to 10.7%. However, Simon's and Juliette's shares will still be diluted in value, due to the shares being issued at a price less than market value.

Recommendation

We recommend that Treadstone push for its loan to be accepted. This has the least detrimental impact on Treadstone, Simon, and Juliette, and on the company as a whole. For Treadstone, there will be no need to invest any additional cash in order to retain its percentage ownership. In addition, with a loan, Treadstone does not have to convert, but could just have the loan repaid when it matures. For Simon and Juliette, the worst that can happen if the Treadstone offer is accepted is that their ownership percentage drops to 14.8% each, and there is some dilution of share value. If the Planet Earth offer is accepted, Simon and Juliette will be worse off, as their dilution of voting percentage and share value could be worse. In addition, with the Planet Earth offer, dividends cannot be paid until conversion, or the loan is repaid. Under Treadstone's proposal, the dividends will likely be retained. From the company's perspective, there is no initial difference between the two offers.

For Assessment Opportunity #11, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to assess the two potential sources for long-term financing, from both Bold's and the shareholders' perspectives.

Competent – The candidate assesses the two potential sources for long-term financing, from both Bold's and the shareholders' perspectives, and makes a recommendation.

Competent with distinction – The candidate thoroughly assesses the two potential sources for long-term financing, from both Bold's and the shareholders' perspectives, and makes a recommendation.

Assessment Opportunity #12 (Depth Opportunity)

The candidate assesses the quality and relevance of the industry data that Treadstone has gathered, and provides an analysis of Bold's performance against the relevant data.

The candidate demonstrates competence in the Finance role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core	E2 FIN
5.1.1	Evaluates the entity's financial state	A	A
5.1.3	Assesses reporting systems, data quality and the analytical models used to support financial analysis and decision-making	B	A

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.2 Identifies patterns from data analysis
6.2.3 Questions the relevance and tests the quality of information and assumptions in own analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

The company recently gathered some market comparison data. We have been asked to assess the quality and relevance of the data, and to provide an analysis of Bold's performance against the relevant data.

Revenue Growth

This graph shows revenue growth for all chick'n products for four competitors, and the industry as a whole. The data was gathered directly from competitors but was summarized by an independent market research firm.

Comments on data quality

- The data has been summarized by an independent market research company, but did they cleanse the data in any way for any anomalies? Was the data checked, or reviewed to see if it was reasonable, and prepared in the same way by competitors?

We do not have any information on this, and these questions should be asked of the market research firm, to verify the validity of the data.

- The data was collected from competitors. However, each customer might have measured the revenues in different manners. For example, the period used may be inconsistent—did all competitors use the same months for the year, or do they have different fiscal year ends and the data relates to different fiscal periods? This could distort the percentage increases calculated, as these may vary for different twelve-month periods.
- US dollar figures were translated to Canadian dollars prior to any calculations; as such, there is a risk that fluctuations in the foreign exchange rate would be captured in the growth rate.
- This data is for all products, but some of the companies (such as Kyleys and Harvesters) only sell a single type of product (i.e., chick'n), and others sell a wide variety of products. If there are different rates of growth for different products, companies that only sell a single product would show only a growth rate for that product, even though others are using averages. For example, if chick'n burger sales had the highest rate of growth, we would expect companies that only sell burgers to have the higher revenue growth rates. Those selling a variety of products would show lower averages. This factor results in information that is not truly comparable.
- Percentage revenue changes can be problematic on a comparative basis, since the percentage is based on last year's revenue base. For example, a company could show a high revenue growth because its 2021 revenue was low, even though its comparative volume of sales could be very small. Conversely, a large company with very high 2021 revenues could have sold a higher volume of product but have a smaller revenue growth percentage. Volumes of product sold would be a more relevant and comparable indicator than percentages.

Comments on relevance

- Revenue growth is a way to measure Bold's performance and potential against its competitors; therefore, the metric is relevant for assessing Bold's performance.
- Some of the companies operate in both Canada and the United States. Demand for plant-based alternatives could differ in different geographies; as such, the difference in geography could distort the competitors' revenue growth rates.
- EnvFrens is highly acquisitive; it is not clear what percentage of its revenues the acquisitions represent. However, it is likely that the acquisitions contribute to its significant revenue growth of 28%. Therefore, it should be excluded from a comparison against Bold's revenue growth.
- Harvesters grows crops, as well as producing plant-based products. If Harvesters also generates revenues from crop sales, this could distort the revenue growth figures; however, we have not currently excluded Harvesters from our analysis.

Excluding EnvFrens, the average industry growth rate is 21%, which is higher than Bold's revenue growth rate of 13%. Although the data should be better assessed for quality and relevance, it does suggest that Bold's growth rate lags behind the industry, which may be related to Bold's production capacity constraints. These factors explain why Bold has been unable to meet targets, and is an indicator that Bold may not be able to compete successfully.

Gross Margin Percentages

This graph shows gross margin percentages for four competitors and Bold. The data was gathered by two associations (one in Canada and one in the United States). The information was gathered from all members, based on surveys completed by each company; each company provided its 2022 revenue and gross profit figures, as well as retail price per unit sold in 2022.

Comments on data quality

- The data was gathered by two different associations, who could have provided different instructions to their members, resulting in the data that is collected being on a different basis.
- This information is based on surveys completed by each company; it does not appear that any verification was done of the figures. The calculation of the gross profit margin figure is computational in nature. Therefore, if the underlying data is incorrect (for example, due to a transpositional error), the gross profit margin for a company could be overstated or understated, making it not comparable.
- The revenues and gross profit figures are not based on audited numbers, and companies could classify costs differently, resulting in gross profit margin figures that are not comparable between companies.
- The definition of a unit could differ between companies, resulting in differences in the resultant retail price per unit. For example, if one company sells a box of eight burgers whereas another sells a box of 20 burgers, it would seem as though the latter company charges a higher retail price per unit, but the reality is that the unit differs. As such, the retail price per unit is not necessarily comparable across the companies.
- It is not clear if the retail prices are in the Canadian or US dollar, or if they have been translated to a common currency (or are still in differing currencies), resulting in a potential lack of comparability between the companies.

Comments on relevance

- Gross profit margin is a way to measure Bold's ability to generate profits relative to its competitors and against its retail price per unit; therefore, the metric is relevant for assessing Bold's performance.

Harvesters grows crops, as well as producing plant-based products; therefore, it likely has a lower cost of goods sold (assuming that it costs Harvesters less to grow crops than to acquire them), making it not necessarily comparable to Bold. Therefore, Harvesters should be excluded from an analysis of gross profit margins.

Bold's gross margin is the lowest of all the competitors, at 31% (the average of all competitors, excluding Harvesters, is 34%), and this is at a retail price of $8.59, which is the second highest retail price. This is consistent with Bold's inability to meet the prices demanded by its customers.

This appears to indicate that the best competitors are achieving the highest gross profit margins due to efficiency of operating costs, and not on selling at a higher price. For Bold to compete and remain profitable, it must reduce its production costs, which can be done by increasing production volumes, automation of equipment, and achieving economies of scale, which will also address its issues with meeting customer demand.

For Assessment Opportunity #12, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to assess the quality of the data and whether the information is relevant, or attempts to provide an analysis of Bold's performance against the relevant data.

Competent – The candidate assesses the quality of the data and whether the information is relevant, and provides an analysis of Bold's performance against the relevant data.

Competent with distinction – The candidate thoroughly assesses the quality of the data and whether the information is relevant, and provides a thorough analysis of Bold's performance against the relevant data.

Assessment Opportunity #13 (Depth Opportunity)
The candidate calculates the price at which Treadstone would need to sell, to realize its targeted annualized return, and discusses the implications of selling according to the shareholders' agreement. The candidate makes a recommendation as to whether Treadstone should remain invested in Bold or sell.
The candidate demonstrates competence in the Finance role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**	**E2 FIN**
5.1.1	Evaluates the entity's financial state	A	A
5.2.2	Evaluates the entity's investment portfolio	B	A
5.6.1	Evaluates the purchase, expansion, or sale of a business	B	A

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility *6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems* *6.2.1 Maintains an objective and questioning mindset to avoid biased analyses* *6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives* *6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions* *6.3.3 Applies decision criteria to choose among viable alternatives*

Treadstone needs to make a decision as to whether to remain invested or to sell. Below we have discussed the relevant considerations.

Sale to a Strategic Buyer

<u>At what price would Treadstone need to sell?</u>

Treadstone has been invested in Bold for four years now. Based on the previous analysis, the current fair market value of each preferred and common share of Bold is $346 per share. Based on this value, Treadstone's annualized return to date is only 6.7%, which is well below the ideal annualized return of 20%. Therefore, if the shares are sold at fair market value, although Treadstone generates a positive return, it does not meet Treadstone's annual return targets. To achieve a 20% annualized return, Treadstone would have to be paid $16,588,800 (FV given PV = $8,000,000, PMT = 0, NPER = 4), or $553 per share ($16,588,800 / 30,000 shares).

This represents a premium of 60% over the $346 price, which is based on the 2022 results, which were poor in comparison with previous years. Any improvement in the cash flows will increase this share price.

A strategic buyer may be willing to pay a higher price due to synergies they could realize. However, it is unlikely that a strategic buyer would offer such a substantial premium unless they are able to generate substantial synergies, and there are multiple interested buyers who could do so.

Implications of selling according to the shareholders' agreement

There are implications for the sale of Treadstone's shares as per the shareholders' agreement. The first section relates to the right of first refusal. As per the agreement, Treadstone cannot sell its shares without first offering Simon and Juliette the right to buy the shares at fair market value, which has been determined to be $346 per share. Only if this offer is turned down, and only after 90 days, can Treadstone accept an offer from another entity for the sale of its shares.

Secondly, there is the shotgun provision. Treadstone may decide that it does not agree with Simon's and Juliette's ideas on what is needed in order to improve profits and cash flows. If there is a dispute that cannot be resolved, under the shotgun provision, either Treadstone or Simon or Juliette could initiate a forced buy or sell. Treadstone could offer to buy Simon's and Juliette's shares for $346, the current market value. Under this provision, Simon and Juliette have 15 days from the date of this offer in which to either sell their common shares to Treadstone at $346 or, in turn, be required to purchase all of Treadstone's preferred shares at $346. If Simon and Juliette accept the offer, Treadstone would have to invest more in Bold, which it is reluctant to do. Alternatively, Treadstone would be forced to sell at $346, which is also not ideal, since the return is low.

Finally, a strategic buyer may require the acquisition of 100% of the shares, and not just 60%. At this point, it does not appear that Simon and Juliette are interested in selling, since they believe that Bold can achieve substantial growth. However, the analysis below indicates that this may not be the case.

Recommendation

Treadstone selling its Bold investment would be complicated, due to the shareholders' agreement, and the current share price is currently low, due to the poor 2022 results. However, the current share price results in an 6.7% return for Treadstone (which is below Treadstone's requirements, but equal to the industry WACC).

During the past year, Bold has been falling behind and losing market share to competitors. Bold is not keeping pace with the industry in terms of revenue growth or its margins, although it charges a relatively high price for its product. If Bold is not able to keep pace with its competitors, the value of the company may plateau or decrease. Treadstone should evaluate the underlying reason for Bold's underperformance, and provide management with suggestions for improving Bold's performance. If the underperformance is related to management, Treadstone could consider options such as using its ownership interest to force a change in management; it has the leverage to do so, particularly if it ends up providing additional funds to Bold, which will result in an increase in Treadstone's ownership interest.

If Treadstone does not believe that it can change Bold's performance (i.e., industry in Canada will not support it), or does not believe that any issues at Bold can be resolved, this suggests that it might be time to sell, particularly as Bold is seeking additional capital. If Treadstone does not believe in management's ability to deliver on budgets/ business plans, Treadstone is not likely going to participate, and it may be better for Treadstone to exit the investment now.

It may be that a strategic buyer can generate a higher return from the company than Treadstone currently can. Treadstone should work with the strategic buyers to arrive at an offer and deal that also considers Juliette's and Simon's interests, and retains them as employees and shareholders. This will help to get Juliette and Simon to accept the sale and ensure a smooth transition.

For Assessment Opportunity #13, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to calculate the price at which Treadstone needs to sell, to realize its target annualized return, or attempts to discuss the implications of selling according to the shareholders' agreement.

Competent – The candidate calculates the price at which Treadstone needs to sell, to realize its target annualized return, and discusses the implications of selling according to the shareholders' agreement. The candidate provides a recommendation on whether Treadstone should remain invested in Bold or sell.

Competent with distinction – The candidate accurately calculates the price at which Treadstone needs to sell, to realize its target annualized return, and thoroughly discusses the implications of selling according to the shareholders' agreement. The candidate provides a recommendation on whether Treadstone should remain invested in Bold or sell.

DAY 2 ‑ MARKING GUIDE ‑ PERFORMANCE MANAGEMENT ROLE
BOLD PLANT FOODS LIMITED (BOLD)

To: Allan
From: CPA
Subject: Management issues

See Common Marking Guide for the Common Assessment Opportunities #1 to #6.

Assessment Opportunity #7 (Depth Opportunity)

The candidate analyzes the three pea protein contracts and makes a recommendation on whether to enter into a contract with the new supplier.

The candidate demonstrates competence in the Performance Management role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**	**E1 PM**
3.3.4	Recommends cost management improvements across the entity	**B**	**A**

CPA Map Enabling Competencies:
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Bold is considering changing its supplier of pea protein. The quantitative analysis below shows the total costs of the contract with AgroPea versus the current two suppliers.

	AgroPea	ManiPea	NFC	
Total tonnes of pea protein required for five years	130,000	130,000	130,000	26,000 × 5
Price per tonne	$530	$450	$450	$450 = $360 × 1.25
Percentage purchased from supplier	100%	70%	30%	
Total cost of pea proteins	$68,900,000	$40,950,000	$17,550,000	
Added costs				
Cost to terminate contract with ManiPea	1,365,000			26,000 × $450 × 2/12 × 70%
Cost to terminate contract with NFC	585,000			26,000 × $450 × 2/12 × 30%
Testing and quality control		3,822,000	1,638,000	$42 × 130,000
Storage for 15 days' worth of pea protein inventory		2,692,603		($720 × 26,000 × 15/365 × 5) × 0.7
Storage for 30 days' worth of pea protein inventory			2,307,945	($720 × 26,000 × 30/365 × 5) × 0.3
Total costs (five years)	$70,850,000	$47,464,603	$21,495,945	
Total for ManiPea and NFC			$68,960,548	

As seen from the above analysis, over the five-year contract period, the total cost using AgroPea (including the penalties on termination) is more than the total cost using ManiPea and NFC as suppliers. However, the entirety of the difference of $1,889,452 ($70,850,000 - $47,464,603 - $21,495,945) is caused by the one-time termination costs of the contracts with Bold's current suppliers, which amount to $1,950,000 ($1,365,000 + $585,000). On an ongoing basis, AgroPea will, in fact, generate an annual cost reduction of $60,548 ($1,889,452 - $1,950,000) over the five-year period.

Prior to making the decision, some other key information is as follows:

- To ensure final product consistency, the manufacturer should ideally source the pea protein from a single supplier.
- There is a trend to have the raw inputs be as fresh as possible, and to have the raw inputs be trackable and traceable from source to final customer.
- Consumers want products produced from locally-sourced crops; that is, Canadian consumers would want Canadian pea crops used, and US consumers would want US products used.
- To ensure the freshest produce possible, the raw protein should be stored and shipped under temperature conditions that are constantly monitored and controlled.

For each of the two options, advantages and disadvantages are discussed below.

Change to AgroPea

Advantages:

- AgroPea is locally owned, by Manitoba farmers. Therefore, although it is a new company, it is likely that the owners have a lot of knowledge and experience in this industry. It is also likely that these local owners have a lot of private monies invested, and therefore want to make this new venture work.
- AgroPea will contract to fulfill all of the company's quantity requirements annually for the next five years. This results in Bold having a single source supplier that will ensure better consistency in the taste and texture of the final chick'n products.
- AgroPea has fully automated, state-of-the-art processing that allows for tighter control and oversight of the product as it moves through the plant, which should result in a higher-quality end product.
- The company provides tracking of the product from source, which is a trend in the industry, and would be an advantage for Bold in selling to its customers. Bold could continue this tracking throughout its processing, packing, and delivery to the final customer.
- AgroPea conducts its own lab testing onsite, which is used in the quality control process, and which will save Bold quality control testing costs. It also ensures that returns by Bold will be minimal, if the testing is thorough and meets Bold's requirements.
- AgroPea has contractual arrangements with local farmers in Manitoba to supply the pea crops to be processed. This provides Bold with locally-sourced product, which ensures freshness, and also allows Bold to note that the product is local, and Canadian produced and processed food, as is an industry trend.

- AgroPea will store the processed pea protein in its climate-controlled warehouses. This is critical, and an important trend in the industry, to ensure freshness of raw materials that is used in Bold's products.
- AgroPea is only two hours away from Bold's manufacturing facilities, so there is little risk that transportation issues might arise, including delays in shipping.
- Finally, AgroPea has agreed to ship just-in-time to Bold with a three-day maximum time lag on delivery. This allows Bold to reduce its storage costs, and frees up warehouse space for other types of inventories. It also ensures maximum freshness of the product, which is a success factor in the industry.

<u>Disadvantages:</u>

- In order for Bold to be able to rely on AgroPea's quality testing, it needs to have evidence that the testing meets Bold's standards. This might require Bold to visit AgroPea's lab periodically, to review its testing procedures, or to have an external audit report that would provide evidence of this. This would require some time and resources.
- Since all the pea proteins are from a single supplier, this increases a variety of different risks:
  - Environmental risk – If there is a drought in any year, and the pea crops are significantly less than normal, AgroPea may not have sufficient inventory to meet Bold's annual requirements. If this were to happen, Bold would have to scramble for new supply sources, as would other competitors, and at increasingly higher prices, due to supply outstripping demand.
  - Business risk – AgroPea is a new company, with no history. It is a start-up; therefore, there is the risk that it may not have sufficient capital resources to be sustainable. If AgroPea incurs substantial losses in the first few years, it may not be around for five years. However, given that it is locally owned and operated by farmers who have experience in this area, this risk may be minimal.
  - Supply risk – Does AgroPea have sufficient supply arrangements with the local farmers to ensure that all its contractual commitments can be made for the next five years? There is the risk that the supply required by Bold increases, and AgroPea cannot meet these commitments. Would Bold then be able to sign with other suppliers?
- There is the risk that AgroPea cannot make the three-day delivery time. This leaves no room for error, if the raw materials are not received on time. Again, Bold has no experience with AgroPea, to provide evidence that they can meet these commitments.
- If all of the crop is sourced in Canada, this would be fine for the Canadian consumers but not ideal for the US consumers. Consumers want locally-sourced crops used in the products they buy.

Keep ManiPea and Narvin Farms Corp. (NFC)

Advantages:

- ManiPea has been in operation for many years, and has been a supplier to Bold since it started operations. Therefore, there is a long-term relationship, which appears to have been positive. Bold has had a relationship with NFC for two years, and there do not appear to have been any issues that have arisen. Bold can be confident that its supply will be received as contractually agreed upon.
- ManiPea is located in Manitoba, within two hours of Bold. There is little risk that transportation issues might arise, including delays in shipping.
- ManiPea ships the pea proteins monthly on a pre-planned schedule that is agreed to at the beginning of each year. Bold has the items in inventory for no more than one month. This timing provides a buffer, in case production is ahead of the preplanned schedule, and ensures that there will be no inventory shortage. NFC ships the pea proteins every two months, as the purchase order detailing the quantity is received. Therefore, Bold has the items in inventory for up to two months.
- ManiPea's production is semi-automated, and not as fully automated as AgroPea. Semi-automation should result in a relatively consistent product, which is key for Bold's finished product consistency. NFC is fully automated, ensuring consistency in the end product.
- Having two suppliers allows product that will be sold to Canadian consumers to be sourced from Canadian crops, and for product that will be sold to US consumers to be sourced from US crops.
- Currently, 30% of Bold's supply comes from this US supplier. This reduces environmental risks, in that, if the Canadian crop is poor, Bold has another supplier that it has an ongoing relationship with, that could be asked to make up any shortfall. This contract is for a minimum quantity, which can be increased as needed.

Disadvantages:

- ManiPea and NFC do not provide tracking of product by source. Although this is an industry trend, Bold would not have product that had this capability.
- Bold has been dealing with NFC and ManiPea for some time. There may be some negative consequences if the contract is terminated prematurely. If Bold accepts the AgroPea proposal, what would be the implications if this new contract does not work out and Bold wanted to return to ManiPea and/or NFC? It might be that Bold would have to pay a higher price, and if the two suppliers had replaced Bold with another customer, Bold might not be able to source the amount of volume needed to meet its annual production requirements.

- For ManiPea and NFC, although there is some preliminary quality control performed, Bold does its own quality control on receipt of the pea proteins. This has an added cost of $42 per tonne. In addition, this results in about 5% of the product being returned and replaced.
- The contractual price is $450 per tonne for both suppliers (using the current exchange rate), but this price is quite volatile for both suppliers; with ManiPea, it can increase if the price of the peas increases by over 15% in any period. There does not seem to be a maximum price set for this contract. Historically, the price of peas has fluctuated by up to 30% over the year. Therefore, there is a risk that this supply price could be substantially higher. For NFC, the contractual price is based in US dollars. As a result, there is foreign exchange risk that the Canadian dollar equivalent could be higher than $1.25, causing the Canadian dollar cost to be higher than its current amount.
- NFC is located in the US. Shipping can take anywhere from one to two weeks. This long shipping period increases the risk of transportation issues arising and delays occurring, causing production delays.

Recommendation

We recommend the acceptance of the new AgroPea contract. Even though AgroPea's price is slightly higher than what is currently being paid on the other contracts, it is fixed for the entire five years, and does not change when pea prices change or the US dollar exchange rate changes. In addition, as shown in the quantitative analysis, over the five-year period, the total cost under the AgroPea contract is higher than the combination of the other two suppliers. However, the entirety of the difference is due to the one-time penalty to cancel the existing contracts, and AgroPea is the less expensive alternative on an ongoing basis. Also, AgroPea has state-of-the-art production and testing facilities, which should result in better, and more consistent, quality of raw materials. It also allows Bold to introduce tracking on its products from source to customer. Therefore, the slightly higher price is justified, and provides Bold with many advantages.

For Assessment Opportunity #7, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to analyze the three supplier contracts.

Competent – The candidate analyzes the three supplier contracts, and makes a supported recommendation.

Competent with distinction – The candidate thoroughly analyzes the three supplier contracts, and makes a supported recommendation.

Assessment Opportunity #8 (Depth Opportunity)

The candidate assesses the two proposals for managing just-in-time delivery for a customer, and makes a recommendation.

The candidate demonstrates competence in the Performance Management role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**	**E1 PM**
2.3.1	Evaluates the entity's strategic objectives and related performance measures	**B**	**A**
3.3.4	Recommends cost management improvements across the entity	**B**	**A**
3.4.1	Evaluates sources and drivers of revenue growth	**B**	**A**

CPA Map Enabling Competencies:
5.1.3 Develops and uses knowledge of the organization, industry and stakeholders
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Below is the quantitative and qualitative analysis of the two shipping proposals.

Sales Contract with National Food Retailer

	Current Distribution System	**With FFD**	
Volume of boxes	21,500	21,500	
Total sales contract – all-in price	$5,000,000	$5,000,000	
Cost of product before shipping and storage – 52%	(2,600,000)	(2,600,000)	
FFD cost		(1,225,000)	$60 on the first 15,000 boxes and $50 for the remaining 6,500
Shipping costs to Eastern Canada	(283,800)		21,500 × 60% × $22
Shipping costs to Western Canada	(215,000)		21,500 × 40% × $25
Fuel surcharge	(60,000)		
Local storage for one month – $12 per box	(258,000)		
Packing and handling out of storage	(192,800)		Flat rate of $300 × 12 months + $8.80 × 21,500
Profit from contract	1,390,400	$1,175,000	
Profit margin from contract	28%	24%	
Difference in profits	$215,400		
One-time investment – inventory system upgrade	$960,000		

Based on this single contract, the net profit under the current distribution system is higher by $215,400. For the current shipping company, there will be a one-time investment of $960,000 to upgrade the inventory system, which the savings from a single contract does not cover. However, this upgrade in the inventory system might be useful for other purposes, and allow the company to acquire other, similar sales contracts.

Regardless of the final proposal accepted, Bold will want to ensure that this just-in-time delivery system can work, since this is one of the key requirements of the large national grocery retailers. If Bold can show that it has these capabilities, it might be able to attract this customer segment. In addition, there are penalties that will be imposed if Bold is late by a day, with the penalty being on a per-late-day basis. This could be onerous on the company.

There are several differences between the two options from a qualitative analysis, which are discussed below.

Current Distribution System

Pros:

- Bold is familiar with this shipping company, as they are the one that is currently used, and have been reliable in the past.
- Overall, the total cost is cheaper than FFD's proposed price.

Cons:

- It requires a separate storage company to also be involved. This means that the shipping company will also have to deliver to the warehouse and then deliver later to the customer, once they know the amount to deliver and where to make the delivery. When there are more companies involved, there are more errors that can arise. In addition, if a delivery is not made on time, who is to be blamed—the shipping company or the storage company?
- It will take more time and resources for Bold to keep track of the inventory and manage its timely delivery.
- There is a fuel surcharge, which could be higher or lower than the $60,000 estimate. This will depend on the diesel price at the actual time of shipping.
- As noted above, a one-time investment of $960,000 in the inventory management system is required, and the company will have to find the funds to make this investment.

FFD Inc.

Pros:

- FFD provides all of the services, so Bold will have a single point of contact for its shipping and warehousing needs. This will make it easier, should a problem arise, as there will be only one company to contact in order to resolve it.
- FFD uses electric vehicles. Given that Bold continuously looks for ways to further reduce its environmental impact, this would be one choice that would do so, as the company's current shipping company uses diesel to fuel its trucks.
- FFD specializes in frozen and fresh food delivery, and therefore, likely has the temperature-controlled facilities required for proper storage.
- FFD is interested in a long-term relationship, to ship and warehouse all of Bold's requirements, and will reduce the price by at least 10% if a long-term commitment is made.
- As FFD is also an investment of Treadstone, Treadstone may have some influence if there are issues that arise during the contract. In addition, it may give Treadstone another reason to stay invested in Bold rather than divesting of its shares.
- FFD has full inventory-tracking capabilities, as well as online access to its warehouses, for customers to track their inventories.
- Treadstone currently has an investment in FFD. This contract would provide an additional revenue stream for FFD, and this would indirectly benefit Treadstone.

Cons:

- Bold has never dealt with FFD before, and therefore has no history, to ensure that FFD can meet its commitments.
- Since FFD is owned by Treadstone, will this cause issues between directors if Bold has complaints about the service?

Recommendation

It is recommended that Bold accept the FFD proposal. It is important, from a strategic perspective, that Bold show that it can provide an efficient and reliable just-in-time delivery service, and with this arrangement, this would be possible. In addition, if a longer-term contract is signed with FFD, the difference between the two proposals will be reduced. In addition, since FFD is owned by Treadstone, this may give Treadstone another reason to remain invested in Bold.

For Assessment Opportunity #8, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to assess the two proposals for managing just-in-time delivery for a customer.

Competent – The candidate assesses the two proposals for managing just-in-time delivery for a customer, and makes a recommendation.

Competent with distinction – The candidate thoroughly assesses the two proposals for managing just-in-time delivery for a customer, and makes a recommendation.

Assessment Opportunity #9 (Depth Opportunity)

The candidate reviews the transfer pricing policy between the protein mixture division and the turk'y division, and makes a recommendation on the appropriate transfer price to use.

The candidate demonstrates competence in the Performance Management role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**	**E1 PM**
3.6.2	Evaluates performance of responsibility centres	**B**	**A**
3.7.1	Analyzes the implications of management incentive schemes and employee compensation methods	**B**	**A**

CPA Map Enabling Competencies:
5.1.2 Recognizes the interrelationships between departmental and functional areas within the organization
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Currently, the transfer price between the protein mixture division and the turk'y division is based on a 15% markup on the full absorption cost. The turk'y division manager wants a lower transfer price, given that the selling price of the turk'y product has been reduced in order to be more in line with the competition.

Quantitative Analysis

Below is the quantitative analysis of the impact of the various methods to calculate a transfer price, and the impact on both divisions' gross profit percentage.

	Turkey Bacon Division					
	Option 1	**Option 2**	**Option 3**	**Option 4**	**Option 5**	**Option 6**
Selling price per unit	$55.00	$55.00	$55.00	$55.00	$55.00	$55.00
Protein mixture	**$10.06**	**$ 8.50**	**$10.94**	**$ 4.95**	**$ 8.75**	**$ 9.40**
Direct materials	6.86	6.86	6.86	6.86	6.86	6.86
Direct labour	7.10	7.10	7.10	7.10	7.10	7.10
Variable overhead	8.54	8.54	8.54	8.54	8.54	8.54
Fixed overhead	13.00	13.00	13.00	13.00	13.00	13.00
Total cost per unit	$45.56	$44.00	$46.44	$40.45	$44.25	$44.90
Gross profit per unit	$9.44	$11.00	$8.56	$14.55	$10.75	$10.10
Gross profit percentage	17.2%	20.0%	15.6%	26.5%	19.5%	18.4%

	Protein Mixture Division					
	Option 1	**Option 2**	**Option 3**	**Option 4**	**Option 5**	**Option 6**
Selling price per unit	$10.06	$8.50	$10.94	$4.95	$8.75	$9.40
Direct materials	$2.50	$2.50	$2.50	$2.50	$2.50	$2.50
Direct labour	1.30	1.30	1.30	1.30	1.30	1.30
Variable overhead	1.15	1.15	1.15	1.15	1.15	1.15
Fixed overhead	3.80	3.80	3.80	3.80	3.80	3.80
Total cost per unit	$8.75	$8.75	$8.75	$8.75	$8.75	$8.75
Gross profit per unit	$1.31	-$0.25	$2.19	-$3.80	$0.00	$0.65
Gross profit percentage	13.0%	-2.9%	20.0%	-76.8%	0.0%	6.9%

Option 1: Full absorption costing + 15% markup

Currently, using a method based on 15% markup over the full absorption cost, the transfer price is $10.06, which results in a profit margin of only 17.2% for the turk'y division.

Full absorption cost	$ 8.75
Markup – 15%	1.31
Total	$10.06

Option 2: Ensure that turk'y division has 20% profit margin

As per the above analysis, the transfer price to achieve a 20% profit margin for the turk'y division is $8.50. However, at this transfer price, which is below the full absorption cost for the protein mixture division of $8.75, the protein mixture division has a loss of $0.25 per unit transferred.

Option 3: Ensure that Protein mixture division has 20% profit margin

The transfer price to achieve a 20% profit margin for the protein mixture division is $10.94 ($8.75 / (1 - 20%). However, at this transfer price, the turk'y division would generate a gross margin of 15.6%, which is well below the 20% gross margin target for the division.

Option 4: Using the variable cost of $4.95

Using this transfer price, the protein mixture division would systematically generate a loss every year, since this selling price would cover variable costs, and the division would generate a loss equal to the division's fixed costs.

Option 5: Using the full absorption cost without any markup

This results in a percentage of 19.5% for the turk'y division, which is slightly below the requested margin of 20%. However, this leaves no buffer, in case there are price increases in the pea protein that have to be covered.

Option 6: Market pricing

Finally, using the market price of $5.90, which is well below the total costs of the protein mixture division, plus the $3.50 of transformation costs, would result in a margin of 18.4% for the turk'y division.

Qualitative Analysis

Market pricing

There are several issues with using the market pricing. The protein mixture is produced using a proprietary technology, and recipe of ingredients developed by Simon, that results in a higher-quality protein mixture than that produced or used by competitors. Therefore, although the market price of $5.90 is significantly below the internal development costs, the product is not comparable. Even adding the $3.50 cost to transform the mixture bought on the market, to provide a comparable product, it would still not provide the same quality and taste as the pea protein produced using Simon's proprietary technology.

In addition, the turk'y division should not be allowed to purchase externally. As discussed above, quality is important and a cheaper, externally produced mixture should not be considered. There are also a lot of interdependencies between the divisions, and ultimately, all of the divisions should use the same protein mixture, since this provides the unique, quality flavour that the shareholders believe differentiates their product. It is also important to stay with the internally-produced mixture so that the consistency of the product remains, throughout all the different products.

Cost-based pricing (options 4 and 5)

The protein mixture is produced from peas, which is a commodity. Historically, its input prices have fluctuated by up to 30% over the year, which in this case would be $0.75 ($2.50 × 30%) per unit. This is the rationale for charging a markup on the full absorption cost, which is the current method (option 5).

The cost-based method, based on the variable cost only (option 4), is also an acceptable method. It is justifiable because the protein mixture division does not operate at capacity (it is only at 80% capacity). As well, the division does not sell its product externally, due to the proprietary nature of the process, and that is what differentiates the company's products. Using a markup on variable cost is often used for the transfer price when there is an opportunity cost, where the division could have sold externally and made a higher profit for the company. However, this is not the case for Bold, since the shareholders believe that it is the pea mixture that results in its higher-quality product, and helps to differentiate the product; therefore, the mixture would never be sold externally. Any variable cost-based method will result in a transfer price that is well below the actual costs incurred, and result in higher-than-reasonable profits being earned by the product divisions, at the expense of the protein division. This may also result in the managers of these divisions agreeing to selling prices that do not even cover the cost of the raw material inputs, causing the company's profits to be lower overall. Using the cost-based-on-variable-cost method is not in the best interests of the entire company.

<u>Division managers' compensation</u>

The protein mixture division is treated as a profit centre. However, this division only sells its product internally, and has no control over external sales.

In order to motivate the protein mixture division manager to act in the overall interests of Bold, the transfer price should be based on a budgeted unit manufacturing cost, marked up by 25% (the markup needed for a 20% gross margin). This treatment would motivate them to reduce their costs, and produce as efficiently as possible. This supports the use of the current method of using a markup on the full absorption cost, but using a budgeted cost as a basis, to avoid the transfer of the protein mixture division's potential inefficiencies to the two other divisions, and affect the performance of the other managers on the basis of elements they cannot control. Another option would be to consider the protein mixture division as a cost centre, and evaluate its performance on elements under its manager's control, such as budget variances on elements that are part of the production costs, such as direct materials (quantities and prices), direct labour and overhead, rather than on a gross margin ratio.

For the product divisions that are treated as profit centres, the managers are compensated on net profits. In this case, the managers will be incentivized to increase revenues and also to reduce costs, to create profits as high as possible. If the costs are understated, with a lower transfer price, these managers may set prices that are lower than the company should be charging. Although the lower prices may generate higher volumes and interdivisional revenues, it may not be high enough to cover the losses of the protein mixture division, and may result in lower profits for the company as a whole.

Recommendation

It is recommended that the company stay with the current transfer price, which covers the full absorption costs for the protein mixture division plus some markup that is consistent with the gross margin required, and results in a transfer cost that is reasonable for the entire company. However, it should be based on budgeted costs, to give the protein mixture division's manager an incentive to control costs, and to prevent the transfer of their potential inefficiencies to the other divisions and affect their performance evaluation. For the turk'y division, the manager should review the pricing strategy used, and determine what the right price for the product should be. In addition, the manager should look for ways within their department to lower other materials and conversion costs, to generate the preferred margin.

For Assessment Opportunity #9, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts some quantitative and qualitative analysis for the impact on the various transfer pricing methods.

Competent – The candidate calculates various transfer prices and their impact on the two divisions, and attempts some qualitative analysis.

Competent with distinction – The candidate calculates various transfer prices and their impact on the two divisions, qualitatively discusses the various methods, and makes a supported recommendation.

Assessment Opportunity #10 (Depth Opportunity)

The candidate interprets the market survey results and makes recommendations on how the company could improve.

The candidate demonstrates competence in the Performance Management role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core	E1 PM
2.4.1	Analyzes key operational issues including the use of information assets and their alignment with strategy	B	A
3.1.1	Evaluates management information requirements	A	
3.2.1	Develops or evaluates data and information inputs for operational plans, budgets, and forecasts	A	

CPA Map Enabling Competencies:
5.1.3 Develops and uses knowledge of the organization, industry and stakeholders
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

A recent market survey has provided some interesting results on how Bold's chick'n burger product compares with competitors' products from a consumer's perspective. As Bold wants to have its product reach as many consumers as possible, this information can be used to improve Bold's product so that it is better received, and more purchases are made by consumers.

We see from the market share information that Harvesters Farms has gained the highest market share of 8%, and EnvFrens has gained 4% market share. These two competitors have taken market share away from Bold, which lost 5%, and Kyleys, which lost 6%. The following analysis gives some insight into why this has occurred.

In considering how important five different factors are in consumers' choice of plant-based chick'n burgers, the most important factor, by far, is brand awareness. In looking at the comparison of Bold and the best competitor, Harvesters Farms, we see that Harvesters Farms has a high score on brand awareness of around 85, while Bold is very low, at around only 13. Therefore, this survey shows that Bold has very low brand awareness, which is contributing to its low sales growth.

The second most important factor is the presence of previous taste tests: it appears that consumers would like to try the product before purchasing it. The large competitors that have their products in the large, quick-service restaurants, provide an opportunity for the consumer to try (test) a product to see if they like it. Since Bold sells to smaller grocery retail chains and independent grocery stores, and to a limited number of restaurants, it has no presence in these fast-food restaurants, and limited presence in other restaurants, so there is little opportunity for consumers to test Bold's products prior to in-home purchases. In light of this, Bold needs to search out new venues, where consumers can taste their products prior to purchase.

The third important consideration is that consumers are looking for pea-protein-based products in their selection of plant-based chick'n burgers. Since Bold's products are made from pea protein, their products will currently meet this requirement. Bold needs to ensure that this fact is part of any promotion of the product.

Consumers want a product that has no additives. We see that this is another negative factor for Bold, in that it has a low score of only 20, compared to Harvesters' score of around 65. Because Bold's product is seen to be too high in additives, consumers are reluctant to purchase the product. In light of this, Bold needs to do more product development, to eliminate the amount of these ingredients in its product, and to promote higher consumer acceptance.

Finally, brand trust ranks as the fifth most important factor. In this case, Bold is found to be very believable and trustworthy—ranking even higher than Harvesters. Given this, Bold needs to use this positive acceptance to build its brand awareness.

In looking at new product development, we see that last year, Harvesters introduced six new products, representing 43% of the new products introduced, and EnvFrens introduced four products, representing 29%. In comparison, Bold introduced no new products. In addition, Kyleys, who also lost market share, only introduced one new product. These two graphs of market share gains and new product introductions appear to provide evidence that new products must be continuously introduced, to maintain or gain market share in this fiercely competitive market. Not introducing any new products to the market has caused Bold to lose market share. We also see that, in looking at the amount of money spent on R&D, Bold reduced its amount from $2.5 million to $2.1 million. This is not an expenditure that should be cut, given its importance in maintaining market share. This supports Simon's and Juliette's concerns about having sufficient funds for investing in product development. The performance of the R&D department should also be questioned: the output of no new products in the past year leads to questions about the use of the $2.1 million invested in this department. Before investing additional money in R&D, Bold should perform a thorough analysis of the underlying causes behind this low output.

Given the above analysis, Bold needs to spend R&D on developing products that are additive-free, and introduce new products each year, in order to maintain or gain market share. It also needs to establish new venues, where its products can be tested by consumers prior to purchase. The consumers already believe that Bold is truthful in its promotion. Providing more opportunities for testing and promoting new, additive-free products should result in increased brand awareness and higher consumer demand. These are goals that the company should try to achieve in the coming year.

For Assessment Opportunity #10, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to interpret the market survey results or makes recommendations on how the company could improve.

Competent – The candidate interprets the market survey results and make recommendations on how the company could improve.

Competent with distinction – The candidate thoroughly interprets the market survey results and make recommendations on how the company could improve.

Assessment Opportunity #11 (Depth Opportunity)

The candidate analyzes the salespeople's compensation plan and makes recommendations for improvement.

The candidate demonstrates competence in the Performance Management role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**	**E1 PM**
3.7.1	Analyzes the implications of management incentive schemes and employee compensation methods	**B**	**A**

CPA Map Enabling Competencies:
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

The salespeople are compensated with three components: 1) a base salary of $30,000 annually; 2) a sales commission based on 20% of the contribution margins; and 3) a bonus. Salespeople were given 2022 targets related to volume of units sold and number of new customers. If targets are met or exceeded, the salespeople will earn bonuses. The

salespeople have no input into these targets and, in 2022, the targets were only achieved by 20% of the salespeople.

A salesperson's compensation plan should motivate employees to attract customers that the company wants, and enter into contracts that are driving the company in the right direction. Compensation should also ensure that employees make decisions that will optimize profits for the company.

Strengths of the existing compensation are as follows:

- The combination of base salary, commission, and bonus based on targets ensures that salespeople at least earn a minimum amount, so that, in times when commissions are poor, they still take home enough pay. The commission provides incentive for the employees to generate sales, and the bonus should motivate employees to do better than in previous years, or to spend their energies in directions that the company wants sales to be generated.
- Having a base salary allows employees to take the time to build relationships with potential and existing customers, since they do not have to spend all of their time closing the sale (as would be the case on a commission-only basis). It also gives employees time to follow up on leads as they arise. This also allows time for any internal work that might be required, such as attending training and meetings.
- Having a bonus based on annual targets motivates employees in the short-term, to help the company achieve its immediate goals. The annual targets can be changed each year as required, to motivate in the short-term, the direction that the company wants revenues to be generated. For example, the short-term target could be tied to selling more of a product or a newly developed product, or attracting a new customer segment, or selling in a new region.

The following are weaknesses of the existing compensation plan:

- Client type – Currently, the target is to increase the number of customers, but there is no indication of the type and size of the new customer that the company would find to be ideal. To date, the company has only been able to attract the smaller grocery retailers and restaurants. However, successful competitors sell to the large grocery retailers and fast-food service companies, which is critical for achieving market penetration and consumer acceptance. These grocery retailers and national fast-food chains purchase primarily on price, as long as the quality of the products are similar, encourage long-term relationships, and want just-in-time delivery. Therefore, to attract these customers, the salespeople will have to spend longer to nurture a relationship with these potential customers. In addition, they may have to convince the potential customer to take a chance on their product, which has a higher quality and a trusted brand in comparison to other existing products. The salespeople may have to give some discounts, but the discounts should still ensure an adequate profit. Given these issues, a compensation plan should motivate the sales employees to attract this ideal

customer by giving credit for nurturing a new relationship that might take more than a year to generate revenues. Targets and/or bonuses should then be set on the type of client that will be attracted.

- Client retention – During the year, Bold lost two significant customers for its turk'y bacon product, representing $5 million in sales. Although the rationale given was that this was due to a new competitor, who has been aggressively targeting Bold's customers, there might have been other ways to retain these customers. The compensation targets should also include retaining a certain percentage of customers. Since the cost of acquiring new customers is high, the salespeople should be encouraged to do all that they can to retain existing customers.
- Level of take-home pay – With the new compensation system, the salespeople ended up earning less than in previous years. Any new compensation plan should have been reviewed and assessed prior to implementation, to ensure that employees would earn at least what they had previously; otherwise, this is a significant demotivator. In addition, the salespeople should have had some input into the nature and type of compensation. The fact that only 20 % of salespeople achieved the targets may indicate that the targets were unreasonable. If targets are set too high, employees are demotivated; if they strongly believe that the target cannot be achieved, they will not bother to try. A better method is for the sales manager to work with each individual salesperson to set targets that are achievable, and that use the strengths and skill set of each individual.
- Commission based on contribution margin – The sales department is a revenue centre, in that they only have control over the sales of the product and not the cost of the product. The advantage of using a commission based on profits is that it ensures that salespeople will prioritize higher-value transactions that will increase profit for the company. This avoids salespeople giving too deep discounts, which would impact profits and be suboptimal.

However, the disadvantage of this method is that the salespeople have no control over costs, only revenues. Generally, employees are compensated on items that they have control over, which in the case of the salespeople, is revenues. A commission based on contribution margin could also discourage the employee from offering discounts or other incentives to win an account, which in some cases might be necessary, such as to win the trust of a new customer, convince a new customer to give the company a chance, or retain an existing customer. During 2022, the company lost two existing clients partly due to the price, and this loss of customers could have possibly been avoided. Being limited to the contribution margin results in the sales employees having little incentive to offer a deal, and missing out on building a long-term relationship with the potential customer.

This change in the commission to be based on contribution margin rather than revenue might have contributed to the loss of these two large customers, if employees felt there

was nothing they could do to keep the customers. The target of volume of unit sales seems counter to the commission structure. On the one hand, the company wants to increase unit sales, but on the other, the price needs to be high enough to result in sufficient contribution margin for the product. Given that, this target does not align with the commission structure that has been put in place. A more ideal compensation would be targets based on revenues, but with a minimum price set on what can be charged.

There do not appear to be any incentives for non-financial improvements. Individual performance evaluations could also include the ability to work with a team, attend team meetings, come up with new ideas for improvements, and take courses for learning development. To motivate these types of actions, one-time bonuses could be provided, based on non-financial metrics.

Finally, the sales employees have complained about the amount of training they received in comparison with other departments. The results of the employee surveys indicate that there were significant differences between the wants of employees to have training, and the amount and type of training that the different employee groups received. The R&D department has the most acceptable results, in that 100% of the employees wanted training, and more than 90% enrolled in learning programs relevant to their own personal development. This was closely followed by the administration department, where there is a higher correlation between those that wanted training and the percentage that received training. The worst group was the sales department, where 80% of the employees wanted training but only 30% received professional development. Therefore, the statement made by the sales employees does appear to be substantiated.

The reasons for the big discrepancies across departments need to be investigated, and may relate to the fact that training is a departmental expense, which department managers are reluctant to incur. For the sales department specifically, the department manager may have believed that the sales employees' time was better spent generating leads than having training.

Conclusion

Given the above analysis, we have the following recommendations:

- Keep the mix of base salary, commissions, and bonuses. However, change the commissions to be based on revenues and not contribution margins, and set minimum prices, below which contracts cannot be negotiated without prior approval.
- Set annual financial targets and non-financial targets, and ensure that the targets are achievable. Proposed targets should be set with some input from the individuals, so they understand the nature and reasoning behind the targets, which will make them more motivated to try to achieve them. Targets should include new customers that are of a certain type, such as, perhaps larger grocery retailers or fast-food service

providers, and the size of sales contracts. Non-financial targets can be based on attending meetings, generating new leads, and taking training courses.

- The department manager should make professional development courses available, that employees should be required to enroll in. As seen from the survey, the sales employees are interested in these types of programs but, for whatever reason, were not able to take them. There should be a company-wide practice whereby all employees are treated equally and receive equivalent amounts of training.

For Assessment Opportunity #11, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to analyze the current sales compensation plan.

Competent – The candidate analyzes the current sales compensation plan.

Competent with distinction – The candidate thoroughly analyzes the current sales compensation plan and recommends improvements.

Assessment Opportunity #12 (Depth Opportunity)

The candidate prepares a new balanced scorecard detailing the goals, measurement, and suggested targets.

The candidate demonstrates competence in the Performance Management role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**	**E1 PM**
2.3.1	Evaluates the entity's strategic objectives and related performance measures	**B**	**A**
3.6.1	Evaluates performance using accepted frameworks	**B**	**A**

CPA Map Enabling Competencies:
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Balanced Scorecard

In developing the balanced scorecard, we have considered the various goals that Treadstone, Juliette, and Simon have noted. In addition, we have included the conclusions from the analysis of the market survey and the product improvements that need to be made. And lastly, we have considered the results of recent employee surveys.

A draft of possible goals, measures, and targets is provided below.

<u>Financial</u>

Goal: Sufficient profits are being earned, given the investment.
Measure: Return on asset investment (ROAI).
2023 Target: 2022 ROAI = net income/assets = 1,696/56,345 = 3.0%. Target for 9%.
Rationale: Treadstone measures success with ROAI, and the industry average is 9%.

Goal: Improve profitability of each product.
Measure: Profit per product.
2023 Target: 5% improvement year over year.
Rationale: Treadstone measures success by looking at profit by product; therefore, Treadstone will want to see improvement in this. In addition, Simon and Juliette also want to improve efficiencies and reduce costs.

Goal: Sustainable cash flows.
Measure: Operating cash flows to assets.
2023 Target: 2022 is 4,742/56,345 = 8.4%. Target for 10%.
Rationale: Treadstone uses operating cash flows as a measure of success; therefore, a ratio of operating cash flow to either assets or sales is needed.

Goal: Increase value of the company.
Measure: Value per share.
2023 Target: 10% increase of share value year over year.
Rationale: Treadstone is wanting to sell its shares at some point in time, so will want to ensure that shareholder value is created year over year.

Customers

Goal: Brand awareness.
Measure: Customer brand awareness score (using industry survey data).
2023 Target: Currently, the score is around 13, as per the market survey. Target for 30.
Rationale: Bold currently has poor brand awareness, as indicated in the market research graphs and its own analysis. Brand awareness is key for success in this industry, so we will want to measure this improvement. This ties into Simon's and Juliette's goal of increasing brand awareness.

Goal: Increase the number of customers, and average amount of annual sales per customer.
Measure: Number of new customers in the year, and average annual sales per customer.
2023 Target: Add 50 new customers over the year. This represents a 5% increase. Increase the average annual sales for each new customer to be higher than $120,000.
Rationale: Currently, Bold has 1,000 customers, and the median annual sales per customer is $120,000. To generate revenues, Bold has to increase its customer numbers and annual commitments. It lost customers over the past year. With higher revenues and production volumes, this helps Bold become more efficient, which is a goal that Simon and Juliette would like to achieve.

Goal: Increase consumer's ability to test the product in order to increase at-home purchases.
Measure: Number of different venues available for consumer to taste-test the product.
2023 Target: Create one new venue that allows consumers to taste the product prior to purchase.
Rationale: As seen in the market survey, consumers want to taste-test the product prior to purchase, and this was an area where Bold's product was noted to be weak and well behind the more successful competitors.

Goal: Premium quality of product as related to look, feel, and taste.
Measure: Quality assurance testing results.
2023 Target: Finished products achieving 95% test scores.
Rationale: A key success factor in the industry is to have a product that tastes and looks like real meat, and has consistent quality. Currently, Bold tests its products for quality control, and should not ship unless a score of 95% has been achieved.

<u>Internal business processes</u>

Goal: Increase automation in production.
Measure: Dollars spent on increasing automation to production.
2023 Target: Target that 50% of new investment will be spent on automating the production.
Rationale: As input and processing costs are high, operational efficiency due to technological adoption and improved processes is key for success. This also ties into Simon's and Juliette's goal of increasing automation in order to reduce production costs.

Goal: Add traceability to the products.
Measure: Percentage of products that are traceable from source to customer.
2023 Target: Target to have 30% of the products traceable from source to customer.
Rationale: Another trend in the industry is to have raw inputs be as fresh as possible, and be trackable from source to sale.

Goal: Product innovation.
Measure: The number of new and improved products introduced annually.
2023 Target: Introduce at least two new products next year.
Rationale: A key success factor is introducing new and innovative products. Given that Bold trails behind competitors in this, as seen with the market survey, it would want to improve this rate of introduction. The successful competitors introduced four and six new products in one year. This also ties into Simon's and Juliette's goal of introducing new products on a timelier basis.

Goal: Reduce the quantity of additives in the product.
Measure: Percentage of additives in the products.
2023 Target: Eliminate additives in at least one product.
Rationale: Successful innovative products must be additive-free. Currently, the product comparative graphs indicate that the company is seen to have to a high quantity of additives.

<u>Learning and growth</u>

Goal: Improve new product development.
Measure: Number of new patents per year.
2023 Target: Target for at least one new patent per year.
Rationale: R&D innovation is important for gaining market share. Currently, the R&D department generates at least one new patent per year, which is assumed to be acceptable, and a goal that should be maintained.

Goal: Provide professional development training to employees.
Measure: Percentage of employees enrolled in learning programs in the year.
2023 Target: Target set at 50% for each of the employee groups.
Rationale: As per the employee surveys, in three of the five different employee groups, enrolled learning ranges from 20% to less than 40%. Therefore, the goal is to improve these percentages in the next year.

Goal: Attract and retain highly experienced food scientists.
Measure: Churn rate of scientists.
2023 Target: Maintain a churn rate of 2% or less.
Rationale: For success in R&D, Bold needs to attract and retain highly experienced food scientists. Currently, the company has a churn rate of 2% in its R&D department, which it would like to maintain.

Goal: Increase cross-training amongst the departments.
Measure: Percentage of employees who are cross-trained in other departments.
2023 Target: Target set at 50%.
Rationale: Employee surveys again indicate that cross-training is low for three of the five employee groups, and ranges from 15% to 40%. Therefore, these percentages need to be improved.

For Assessment Opportunity #12, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to develop a balanced scorecard.

Competent – The candidate develops a balanced scorecard that considers the shareholders' goals and the industry success factors.

Competent with distinction – The candidate develops a balanced scorecard that considers the shareholders' goals, industry success factors, the market, and employee survey data.

Assessment Opportunity #13 (Depth Opportunity)

The candidate assesses if Bold still meets Treadstone's objectives from a strategic perspective, and provides operational improvement recommendations in order to do so.

The candidate demonstrates competence in the Performance Management role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core	E1 PM
2.3.1	Evaluates the entity's strategic objectives and related performance measures	B	A

CPA Map Enabling Competencies:
5.1.3 Develops and uses knowledge of the organization, industry and stakeholders
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Below is the assessment of whether the investment in Bold still meets Treadstone's investment strategic goals.

- Treadstone invests in companies that reduce the environmental impact, and improve land and water use. Bold still meets this strategic investment goal, since it produces plant-based foods that are substitutes for chicken and turkey products. By using plant-based materials, these processes have less detrimental impact on the environment than raising chickens and turkeys, and processing them into poultry products for human consumption.
- Treadstone chooses investments that can realize synergies. By continuing to invest in Bold, there are several synergies that could be realized:
  - The plant-based dairy products and Bold products could be sold in some combination to the same customers, using the same distribution channels. Grocery retailers might be more interested in Bold if a larger selection of products could be offered, so there might be some opportunity for strategic alliances amongst Treadstone's plant-based food processors.

  - One of Bold's weaknesses from the market survey is that consumers do not have the chance to taste-test the products before purchasing it, and yet this is an important factor in a consumer's choice. By selling the products on food trucks in various locations, consumers would be able to test the products. There are synergies that could be realized between the food truck company and Bold. By using food trucks to sell Bold's products, the company would be able to directly interact with its consumers. The company could get immediate feedback on its products, which would help product development. It could also use the food trucks to test new products prior to full-scale production. It also would give the company control over the preparation of the product, to ensure that it was being prepared properly, to give consumers the best flavour. Being able to speak to consumers directly will provide invaluable information for the R&D team.
  - As seen above, FFD, the logistics company, could provide shipping and warehousing of Bold's products across the country, allowing it to provide just-in-time delivery to customers who needed it.
  - Treadstone owns vegetable farms. There may be products grown at these farms that could be used in Bold's products, resulting in further synergies between the companies.
- One of Treadstone's goals is to invest in companies where there is at least 10% annual industry growth expected. The plant-based food industry is in a growth stage, with annual growth rates expected to be 15% for the next two years.
- There are several operational improvements that can still be made, as summarized below:
  - Bold produces a good quality product, as shown in the consumer surveys. However, brand awareness is weak, and needs to be improved. Currently, consumers have brand trust in Bold, but consumer awareness of what the brand is all about is generally very low in comparison to its competitors. Bold may be able to leverage from the success of the plant-based dairy products company that Treadstone currently owns, to better penetrate this consumers' market. Or there may be cross-promotions that the two companies could engage in, to increase the reach of both products.
  - In order to attract the large grocery retailers, Bold has to become more price competitive, and also provide just-in-time delivery. As noted above, the just-in-time delivery issue can be resolved. The production costs are a larger issue. Bold needs to invest in more highly-automated equipment, to produce more efficiently. If Bold can get its costs down, it should be able to meet the price concessions that the larger grocery retailers are demanding, and sell higher volumes with these contractual, long-term relationships. However, the company needs additional funds to make these investments, and Treadstone currently is reluctant to invest additional amounts.

- From the market surveys, Bold needs to spend R&D on developing products that are additive-free, and introduce new products each year, in order to maintain or gain market share. Bold's R&D team is highly experienced in the food sciences, and it is very likely that it can develop products that will meet these consumers' demands.
- Bold's R&D team has generated at least one patent every year. There may be additional value in these patents that should be assessed, whereby these patents could be sold or used in some of Treadstone's other companies.
- Finally, a new balanced scorecard has been designed that should motivate the company to move in the right direction, to achieve Treadstone's goals for Bold.

Conclusion

It appears that there is still work that can be done at Bold, with the guidance of Treadstone, to improve the company's revenues and costs. More information has been gathered with this analysis, and there is now a direction to follow. Treadstone should stay invested for at least another two years, and make the operational changes that have been suggested. Bold has a good-quality product, and there are many synergies that could be realized with Treadstone's other investments.

For Assessment Opportunity #13, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to determine if the investment in Bold still meets Treadstone's objectives from a strategic perspective, and attempts to recommend operational improvements for Bold.

Competent – The candidate analyses whether the investment in Bold still meets Treadstone's objectives from a strategic perspective, and recommends operational improvements for Bold.

Competent with distinction – The candidate thoroughly analyses whether the investment in Bold still meets Treadstone's objectives from a strategic perspective, and recommends several operational improvements for Bold.

DAY 2 ‑ MARKING GUIDE ‑ TAXATION ROLE
BOLD PLANT FOODS LIMITED (BOLD)

To: Sharon Chung, CPA, Gaber & Peterson LLP
From: CPA
Subject: Taxation issues for Bold

See Common Marking Guide for the Common Assessment Opportunities #1 to #6.

Assessment Opportunity #7 (Depth Opportunity)

The candidate calculates the capital cost allowance (CCA).

The candidate demonstrates competence in the Taxation role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core	E4 TAX
6.2.2	Advises on taxes payable for a corporation	B	A

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Capital Cost Allowance

Before calculating taxable income for the year, it is necessary to calculate the capital cost allowance available. I have assumed that the corporations associated with Bold (discussed later) will use all of the immediate expensing limit of $1.5 million per year, but this should be verified before we complete the tax return.

Class	Note	1 10%	8 20%	10 30%	12 100%
Closing balance 2021		4,012,000	652,000	77,000	0
Additions – given	1	225,000	1,180,000	0	
Additions – other	2				760,000
Proceeds of disposition	3			(150,000)	
CCA		(434,950)	(484,400)		(760,000)
Recaptured CCA	3			73,000	
Closing balance 2022		3,802,050	1,347,600	0	0

(continued)

Class	Note	14.1 5%	44 25%	50 55%	53 50%	Totals
Closing balance 2021		2,198,000	0	50,000	125,000	7,114,000
Additions – given				210,000	4,460,000	6,075,000
Additions – other	4		495,000			1,255,000
Proceeds of disposition	5				(450,000)	(600,000)
CCA	6	(109,900)	(185,625)	(200,750)	(3,092,500)	(5,268,125)
Recaptured CCA						73,000
Closing balance 2022		2,088,100	309,375	59,250	1,042,500	8,648,875

Notes:

1. The addition to the building for financial statement purposes related to the increase in the asset retirement obligation is not an addition for tax purposes, as the cost has not actually been incurred (as it is merely an estimate). When the asset is retired in later years, any disposition costs will generally be deducted from the proceeds received, in determining any gains or losses or adjustments to the CCA classes.

2. Included in selling and administrative expense is the software update of $960,000. Of this amount, $200,000 is training that is deductible, and $760,000 is software, which is Class 12 and included in the CCA for the year.

3. All delivery vehicles were disposed of, representing all the assets in Class 10. These vehicles had an original cost of $225,000. The proceeds of disposition were $150,000. The lesser of the proceeds of disposition of the property, or the capital cost of the property, is deducted from the class. In this case, the proceeds of $150,000 are deducted. Since the balance in the class is negative after this adjustment, there is recaptured CCA equal to $150,000 - $77,000 = $73,000.

4. Bold purchased patents for $495,000 on August 1, 2022, and these expire in 16 years. Class 44 includes a "patent, or a right to use patented information for a limited or unlimited period" so the patents could be included in Class 44, at 25%.

   Bold could also elect to put this asset in Class 14. Class 14 is straight-line CCA, based on the number of months used in 2022 and remaining in the life of the patent. The accelerated investment incentive is available to increase the CCA in the first year to 150% of what would otherwise be claimed. Therefore, the CCA is equal to $495,000 × 5 months / (16 years × 12 months) × 150% = $495,000 × 5/192 × 150% = $19,336. This would yield a lower deduction in the current year, so this is not recommended.

5. Manufacturing equipment was disposed of, with an original cost of $640,000. The net proceeds are $500,000 - $50,000 = $450,000. Again, the lesser of net proceeds and cost is deducted from the CCA class. Therefore, the net proceeds of $450,000 is the lower amount, to be deducted from the class.

6. Included in the new manufacturing additions for Class 53 is equipment of $980,000, which was purchased in 2022 but was not installed and tested until January 15, 2023. CCA cannot be claimed on depreciable capital property until the earlier of the time the depreciable capital asset is available for use, or the second taxation year following the year of acquisition. Since this equipment was acquired in 2022 and not installed until January 2023, it was not available for use in 2022, and no CCA can be claimed on it until 2023.

Therefore, the CCA claimed is equal to:
Opening balance of $125,000 × 50% = $62,500
Total additions of $4,460,000, less proceeds of disposition of $450,000, less assets not available for use of $980,000 = $3,030,000, 100% of which is deductible in the year of acquisition due to the accelerated investment incentive for this class.
Total CCA on Class 53 = $62,500 + $3,030,000 = $3,092,500

For Assessment Opportunity #7, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to calculate CCA.

Competent – The candidate calculates CCA.

Competent with distinction – The candidate thoroughly calculates CCA.

Assessment Opportunity #8 (Depth Opportunity)

The candidate determines which companies are related and associated with Bold, and the implications of these relationships.

The candidate demonstrates competence in the Taxation role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**	**E4 TAX**
6.1.3	Explains implications of current trends, emerging issues and technologies in taxation	C	B
6.2.1	Evaluates general tax issues for a corporate entity	B	A
6.2.2	Advises on taxes payable for a corporation	B	A
6.3.1	Evaluates general tax issues for an individual	B	A

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Treadstone and Derman Family Investments

Treadstone is an investment corporation that holds investments in private companies. It has 60% voting control of Bold, and therefore controls Bold. In addition to its investment in Bold, it also has the following holdings:

	Treadstone Ownership	Other Known Owners
Food Trucks Inc. (Food)	40%	60% Unrelated owners
Garden Farms Corp. (Garden)	35%	50% Food 15% Unrelated owners
Planmilk Inc. (Planmilk)	100%	None
Helo's Restaurants Inc. (Helo's)	0%	80% Sarah Derman 20% Richard Derman

Under ITA 251(2)(c)(i), two corporations are related if they are controlled by the same person or group of persons. Treadstone is controlled by a single person, Richard Derman. And since Treadstone owns 60% of Bold, Richard has indirect control of Bold. Therefore, if Richard has direct or indirect control of any other company, that company is related to Bold.

In addition, Richard is related to his spouse, Sarah. A related group of individuals is defined in ITA 251(4) as a group in which each member is related to every other member.

For association, under ITA 256(1)(a), if one of the corporations directly or indirectly controls the other, they are associated. Under these rules, Bold and Treadstone are associated. Under ITA 256(1)(b), if both corporations are directly or indirectly controlled by the same corporation, they are also associated. Therefore, Bold is associated with Planmilk.

The table below assesses whether Bold is related to, and/or associated with, all of these above-listed companies.

Company	Related	Associated
Treadstone	Treadstone controls Bold; therefore, Treadstone and Bold are related.	Treadstone controls Bold; therefore, Treadstone and Bold are associated.
Food	Treadstone does not have control over Food as it only owns 40%. Therefore, Food and Bold are not related.	Treadstone does not have control over Food as it only owns 40%; therefore, Food and Bold are not associated.
Garden	Treadstone is not related to Garden because Treadstone does not directly control Garden, nor does Treadstone directly control Food, so there is no imputed ownership. Therefore, these two corporations are not related.	Treadstone owns 40% of the outstanding shares of Food. Food owns 50% of Garden. Therefore, Treadstone is deemed (256(1.2)(d)) to own an additional 20% (40% × 50%) of Garden through its ownership in Food. In addition, Treadstone owns 35% of Garden directly. Therefore, in total, Treadstone is deemed to own 55% (20% + 35%) of Garden. The 55% gives Treadstone control for association purposes. Therefore, Garden and Bold are associated, as they are controlled by the same corporation.
Planmilk	Treadstone has 100% ownership of Planmilk, and Treadstone therefore has control over Planmilk. Bold and Planmilk are both controlled by Treadstone; therefore, Bold and Planmilk are related.	Treadstone directly controls both Bold and Planmilk; therefore, these two corporations are associated.
Helo’s	Sarah, Richard’s spouse, owns 80% of Helo’s. Richard owns the remaining 20%. Richard (who controls Bold through Treadstone) and Sarah are related; therefore, Helo’s is related to Bold, as they are controlled by related persons.	Under ITA 256(1)(c), although Richard and Sarah are spouses, and Sarah controls Helo’s and Richard controls Treadstone, because there is less than 25% cross-ownership (Richard owns less than 25% of Helo’s shares), Helo’s and Bold are not associated.

Implications of Related and Associated Corporation Status

Under the Income Tax Act (ITA), related persons are deemed not to deal with each other at arm's length. Transactions that occur between non-arm's length parties, generally, should occur at fair market value (FMV). Transactions between non-arm's length parties that are not completed at FMV are subject to different treatment, and can result in double taxation.

Association is important for allocating certain benefits available to corporations. For example, the annual amount of the small business limit is allocated amongst associated corporations and cannot exceed the total annual amount available of $500,000. However, in the case of Bold, as discussed below, since its taxable capital is greater than $15 million, Bold and its associated corporations cannot benefit from the small business deduction (SBD) in 2022 anyway. The point at which the small business limit is entirely eliminated will increase to $50 million for 2023, so a more thorough analysis of taxable capital of the associated group will need to be performed next year. The small business limit is also affected by the adjusted aggregate investment income (AAII) grind, although we do not have enough information to determine the impact of this for this corporate group.

In addition, associated groups must share the $1.5 million annual limit for the immediate expensing provisions for certain depreciable properties. As mentioned earlier, I have assumed that the associated corporations will use all of this limit, but this should be confirmed.

<u>Intercompany transaction</u>

In March 2023, Bold is considering a sale of one of its patents to Planmilk. The patent cost $125,000 in total development costs, incurred from 2016 to 2020, when the patent was registered. Planmilk has offered to purchase the patent for $210,000, although the FMV is $260,000. However, since Bold could use the cash, Bold is considering accepting the offer.

Planmilk is a related company, and is therefore considered to be non-arm's length from Bold. Planmilk has offered to purchase the patent for less than FMV. Because the proceeds received by Bold are less than FMV, the deemed proceeds received will be the FMV of $260,000. Since the cost of this patent was never capitalized during development, and the development costs were expensed as incurred, the cost basis will be zero and there will be a taxable capital gain of $130,000 ($260,000 × 50%).

The proceeds that Bold will report will be $260,000, the deemed proceeds on sale. On the other hand, Planmilk will have an adjusted cost base (ACB), and capital cost for CCA purposes, of the actual price paid, which will be $210,000. Therefore, there is double taxation on the $50,000 difference between the price received on the sale and the FMV of the patent sold.

There may also be limitations to the amount of capital cost allowance that can be claimed by Planmilk, due to paragraph 13(7)(e), which are beyond the scope of this report. Using Section 85 to defer the taxation of the gain would also be inappropriate for this transaction, as the transaction is not taking place at fair value.

For Assessment Opportunity #8, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss which parties are related or associated with Bold, and the implications thereof.

Competent – The candidate discusses which parties are related and associated with Bold, and the implications thereof.

Competent with distinction – The candidate thoroughly discusses which parties are related and associated with Bold, and the implications thereof.

Assessment Opportunity #9 (Depth Opportunity)

The candidate calculates corporate taxable income.

The candidate demonstrates competence in the Taxation role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**	**E4 TAX**
6.2.2	Advises on taxes payable for a corporation	B	A

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Calculation of Taxable Income

	Note	
Adjusted net income before taxes		
Net income before taxes (draft statement of earnings)		$1,893,000
AO4 Goodwill impairment		(656,000)
AO5 Interest		(28,061)
AO6 Lawsuit contingency		(50,000)
Revised income before income taxes		1,158,939
Adjustments for income tax purposes		
Goodwill impairment	1	656,000
Bond discount amortization	2	28,061
Lawsuit contingency	3	50,000
Accretion expense	4	50,000
Amortization	5	3,930,000
CCA	6	(5,268,125)
Recapture	6	73,000
Loss on disposal for accounting purposes	7	22,000
Meals and entertainment	8	450,000
Software	9	760,000
Unpaid bonuses	10	1,400,000
Abnormal waste	11	0
Taxable income		$3,309,875

Notes:

1. Goodwill impairment is on account of capital, and is therefore not deductible. It is added back for income taxes purposes and, instead, goodwill is deducted over time through the CCA calculations in Class 14.1.
2. The bond discount amortization on the supplier note payable is not deductible as it is not legally payable. Only the 2% interest is legally payable. The bond discount amortization will be added back for 2022 (and 2023).

3. As a general rule, ITA 18(1) does not allow reserves and contingencies to be deducted for income tax purposes. Therefore, the amount accrued for the lawsuit is added back for income tax purposes. There is no specific reserve allowed by the Income Tax Act for this type of cost, so the actual amount paid will be deducted when incurred.
4. Accretion on the asset retirement obligation is not deductible, as the amount has not been incurred, and is only increasing a non-deductible reserve.
5. Amortization is not deductible as it is an amount on account of capital. The adjustment is equal to $3,899,000 + $31,000 = $3,930,000.
6. CCA and recapture are calculated earlier.
7. The net loss for financial statement purposes on the sale of PP&E is added back, as the disposal is treated in the CCA schedule.
8. Only 50% of meals and entertainment can be deducted, and therefore, 50% has been added back. There is no mention of items that might be allowed 100% deduction, so the full amount is treated as only eligible for 50% deduction. Add back $900,000 × 50% = $450,000.
9. As discussed earlier, $760,000 of software costs needs to be included in Class 12 as amounts on account of capital.
10. Under subsection 78(4), salary, wages, or remuneration that are unpaid 180 days after the end of the taxation year are not deductible in the year they are incurred, and are instead deducted in the year they are paid. Since the $1.4 million of bonuses under the new plan will not be paid until July of 2023, they cannot be deducted in 2022.
11. Abnormal waste is deductible if it is a reasonable expense. In this case, the cost of $275,000 was due to equipment malfunction, which is a normal operating issue that can arise. Therefore, there was no adjustment for this amount.

For Assessment Opportunity #9, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to calculate taxable income.

Competent – The candidate calculates taxable income.

Competent with distinction – The candidate thoroughly calculates taxable income.

Assessment Opportunity #10 (Depth Opportunity)
The candidate calculates corporate taxes payable.
The candidate demonstrates competence in the Taxation role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**	**E4 TAX**
6.2.2	Advises on taxes payable for a corporation	**B**	**A**

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Calculation of Income Taxes Payable

Interest income of $20,000 was earned during 2022. Active business income excludes personal services business income (which does not apply here), and specified investment business income (which could be the case here, since interest income is property income). However, active business income includes income that is incidental to an active business.

In this case, the income was earned on Bold's operating bank account, which had $1.4 million at the beginning of the year and $1.2 million at the end of the year, which does not seem excessive for a business with $4.7 million of operating cash flows and $56.3 million of total assets. This would suggest that the interest earned on the operating bank account would be incidental to Bold's active business.

There do not appear to be any other investments on the balance sheet, or other investment income in the statement of earnings, so all of the taxable income is active business income. Foreign business income totalled $350,000, and foreign tax paid was $95,000, and the remainder was active business income earned in Canada.

Note				
	Net income for tax purposes			3,309,875
	Less: Division C deductions			0
	Taxable income			3,309,875
	Basic Part I tax		38%	1,257,753
1	Less: Federal tax abatement	2,959,875	(10%)	(295,988)
2	SBD	0	(19%)	0
3	General Rate Reduction (GRR)	3,309,875	(13%)	(430,284)
4	Foreign tax credit (FTC)			(87,500)
	Federal Part I tax payable			443,981

Notes:

1. There is foreign business income of $350,000, so the federal abatement is 10% of taxable income less the foreign business income.

Total taxable income	3,309,875
Foreign business income	(350,000)
Net amount on which the federal tax abatement is calculated	2,959,875

2. Bold is not eligible for the SBD due to the taxable capital employed in Canada (TCEC) grind. Since TCEC is greater than $15 million in the prior year (2021), the company has no available small business limit that can be used in 2022, even before considering the TCEC of its associated corporations.

   TCEC = Long-term debt + equity = $1,000,000 + $15,300,000 + $12,974,000 = $29,274,000.

3. GRR is 13% of full-rate taxable income. While it is likely that much of this income would qualify for the manufacturing and processing credit, since the GRR is the same rate, the calculation below only claims the GRR for simplicity.

Taxable income	3,309,875
Less:	
Income eligible for the SBD	0
Aggregate investment income for the year	0
Full rate taxable income	3,309,875

4. Foreign tax credit

The FTC for business income is the least of:

a.	Foreign tax paid		95,000
b.	Net foreign business income / adjusted net income × tax otherwise payable		
	Net foreign business income (A)	350,000	
	Adjusted net income (B)	3,309,875	
	Tax otherwise payable (Basic Part I Tax - GRR) (C)	827,469	
	A/B × C		87,500
c.	Tax otherwise payable		827,469
	Least of the above		87,500

Whereas the foreign tax paid on business income is $95,000, and the credit available is only $87,500, the unused foreign tax credit ($7,500) can be carried back up to three years or forward up to 10 years, to be used against taxes incurred on other foreign business income.

[Note: Foreign tax credits is a proficiency level C topic, so candidates were not expected to perform the detailed calculations included in the guide.]

Conclusion

Bold has federal taxes payable for 2022 of $443,981. However, it has only paid $220,000 in income tax instalments for the 2022 taxation year. Since Bold's taxable income (plus the taxable income of its associated companies, which is currently unknown) exceeds the small business limit available for its associated group (which is zero), its balance owing for 2022 was due on February 28, 2023. Today is March 10, 2023, so the balance owing is late. Bold should make the payment as soon as possible to minimize any interest to be paid to the CRA on the balance owing.

For Assessment Opportunity #10, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to calculate taxes payable.

Competent – The candidate calculates taxes payable.

Competent with distinction – The candidate thoroughly calculates taxes payable.

Assessment Opportunity #11 (Depth Opportunity)

The candidate discusses the taxation issues associated with a company automobile.

The candidate demonstrates competence in the Taxation role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**	**E4 TAX**
6.2.2	Advises on taxes payable for a corporation	B	A
6.3.2	Evaluates income taxes payable for an individual	B	A
6.7.6	Explains GST obligations arising from other transactions		C

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions
6.3.3 Applies decision criteria to choose among viable alternatives.

Company Automobile for Juliette

<u>Tax implications for Juliette</u>

When an employer provides an automobile to an employee in order to perform their duties, there are two taxable benefits that are assessed for the employee and are included as part of the employment income in any year: the standby charge, and the operating cost benefit.

Standby charge

The first component of the employment benefit is the standby charge, which is the benefit received by Juliette when the company automobile is made available for her personal use. Depending on whether the vehicle is purchased or leased, the standby charge is calculated as follows:

Employer-purchased automobile:

If Bold purchases the automobile, the standby charge is 2% × cost of the car (including GST/HST) × months of availability.

At a cost of $48,000, the annual standby charge is $48,000 × 2% × 12 = $11,520. The standby charge is the same each year, regardless of the condition or age of the car.

Over the four-year period, the total standby charge would be $11,520 × 4 = $46,080, which is very close to the total original cost of the automobile.

Employer-leased automobile:

If the automobile is leased, the standby charge is 2/3 × lease payments (including GST/HST) x number of months the car is available during the year.

At $840 per month, the standby charge would be 2/3 × $840 × 12 = $6,720 annually.

Therefore, from Juliette's perspective, the leased car will result in a lower standby charge. As we see later, the lease option is also more beneficial for Bold, due to the restrictions on the amount of CCA and the limits on the deductible lease payments.

Reduced standby charge:

The standby charge can be reduced if Juliette is required to use the automobile in her employment duties, and the use of the automobile is primarily employment-related, which is interpreted to be more than 50% of the kilometres driven.

Juliette estimates that she will drive 50,000 kilometres annually, of which only 10,000 would be for personal use. The calculation of the reduction is as follows:

Non-employment kilometres / (1,667 × number of months available)

Therefore, based on the employer-leased option, the standby charge would be:
$6,720 × (10,000 / (1,667 × 12)) = $6,720 × (10,000 / 20,004) = $3,359

Therefore, Juliette would have an annual standby charge of $3,359.

If the vehicle were purchased instead, the standby charge would be:
$11,520 × (10,000 / (1,667 × 12)) = $5,759

Operating cost benefit
Since the company pays for the operating costs (such as fuel, maintenance, and insurance), the second benefit is the operating cost benefit, which is the benefit for Juliette's personal use of the company automobile. The operating cost benefit is determined by multiplying the prescribed amount (currently at $0.33 per km) by the number of personal kilometres driven, less any amount that Juliette repays within 45 days of the end of the year. We have assumed that Juliette will not pay any reimbursements.

In the above example, assuming 10,000 km driven for personal use, the operating cost benefit is
10,000 × 0.33 = $3,300.

Alternatively, because Juliette estimates that she will be using the automobile primarily (more than 50%) for business use, she can elect to have the operating cost be calculated as one-half of the standby charge. If this election is taken, the operating benefit based on the leased option will be ½ × 3,359 = $1,680.

Under these assumptions, the total automobile benefit to Juliette will be $3,359 + $1,680 = $5,039.

<u>Tax implications for Bold</u>

In 2023, the ceiling for CCA for passenger vehicles is $36,000 (before tax), if acquired after January 1, 2023. Because the automobile being considered costs more than $36,000, it will be put into Class 10.1 all on its own. In this case, although the automobile is expected to cost $48,000, only $36,000 can be put into the CCA pool. In the year of acquisition, the maximum amount of CCA will be $36,000 × 30% × 1.5 = $16,200.

In the year of sale or disposition, 50% of the normal CCA that would have been available, had the vehicle still been owned, can be claimed. There are no terminal losses or recapture that can arise from the disposition of this automobile because this is not allowed in Class 10.1. Therefore, although the capital cost is $48,000, the company is limited in the amount that can be used as a deduction in determining taxable income.

For the leasing option, the deductible leasing cost is $950 per month, before sales taxes, for new leases. Therefore, the full amount of the lease payment (which, net of GST/HST, is $800 per month) will be fully deductible.

The input tax credit (ITC) on the purchase of the vehicle is also limited to the GST/HST applicable to a vehicle purchased at the amount of the Class 10.1 limit (in this case, $36,000 × 5% = $1,800).

Similarly, GST/HST paid on the lease payments will be eligible for an ITC only to the extent of the GST/HST calculated on the deductible portion ($950 for 2023) of the lease payment. This would, therefore, yield an ITC of $40 per month ($840 × 5/105).

The ITC is not pro-rated based on personal use, as the vehicle will be used more than 50% of the time for business purposes. There will be no GST/HST implications for Juliette.

Therefore, from both Juliette's perspective as an employee, and from Bold's perspective, the company should lease the automobile.

It should be noted that all of these amounts assume that the automobile is not a zero-emission vehicle (ZEV). If it is a ZEV, it will be included in Class 54 instead of Class 10.1, and the limit for CCA (and GST/HST ITCs) is higher ($61,000 in 2023).

This also assumes that Bold does not use the immediate expensing provisions to deduct the cost of the purchased vehicle. However, if some of the combined limit of $1.5 million (to be shared with associated corporations) is available, some amount might be deducted using immediate expensing. Class 10, Class 10.1, and Class 54 are all eligible for the immediate expensing provisions, so they could be elected on the purchased vehicle. If that occurs, the full cost of the vehicle (subject to the limit for the class it belongs to) would be deductible in the year in which the vehicle is acquired.

If the vehicle is in Class 10.1, claimed under immediate expensing, and subsequently disposed of for proceeds greater than zero, recapture may apply, despite the normal rule that it would not. The proceeds would be pro-rated based on the proportion of the initial cost that was allowed under immediate expensing and used to calculate recapture.

For Assessment Opportunity #11, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss the tax implications of purchasing versus leasing an automobile.

Competent – The candidate discusses the tax implications of purchasing versus leasing an automobile.

Competent with distinction – The candidate thoroughly discusses the tax implications of purchasing versus leasing an automobile.

Assessment Opportunity #12 (Depth Opportunity)

The candidate calculates the taxable capital gains related to the sales of shares, and the business investment loss arising on the disposition of shares of a small business corporation.

The candidate demonstrates competence in the Taxation role.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**	**E4 TAX**
6.3.2	Evaluates income taxes payable for an individual	**B**	**A**

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Juliette's Personal Taxes

Capital gains

Calculation of the capital gains on the two share sales during 2022 is as follows.

Riverside

		Aggregate ACB	Number of Shares	ACB per Share
Mar 16, 2019, purchase	5,000 × $10.20	$ 51,000	5,000	$10.20
Feb 22, 2020, purchase	3,000 × $12.45	37,350	3,000	
Subtotal		88,350	8,000	$11.04
Aug 23, 2020, 10% stock dividend	10% stock dividend = 10% × 8,000 = 800 new shares; Aggregate to cost is 800 × $2.35 = $1,880	1,880	800	
		90,230	8,800	$10.25
Sept 25, 2021, purchase	2,000 × $13.40	26,800	2,000	
		$117,030	10,800	$10.84

Proceeds of disposition	4,000 × $15.50	$ 62,000
Less commission		(1,550)
Less ACB	4,000 × $10.84	(43,360)
Capital gain		$ 17,090

Fruitsen

		Aggregate ACB	Number of Shares	ACB per Share
Jun 3, 2021, purchase	2,500 × $6.00	$15,000	2,500	$6.00
Jan 4, 2022, stock split		0	2,500	
		$15,000	5,000	$3.00

Proceeds of disposition	3,000 × $3.80	$11,400
Less commission		(260)
Less ACB	3,000 × $3.00	(9,000)
Capital gain		$2,140

Business investment loss

JKL is a small business corporation (SBC). The loss on these shares is calculated as:

Cost basis	$100,000
Less amount received	(20,000)
Loss on disposal of JKL shares	$ 80,000

A business investment loss (BIL) arises when there is a disposition of shares (or debt) of a small business corporation.

In 2019, Juliette had claimed a capital gains deduction of $35,000 on shares of a qualified SBC. The BIL is reduced by two times (1/0.5) the deduction claimed, or $35,000 × 1/0.5 = $70,000. This leaves a BIL of $10,000.

One-half of the BIL is called an allowable business investment loss (ABIL), which can be claimed against any source of income. Therefore, $5,000 ($10,000 × ½) can be claimed as an ABIL against other income for the year. One-half of the restricted loss ($70,000 × ½ = $35,000) is an allowable capital loss and may only be used against taxable capital gains.

Therefore, Juliette will show the following:

Taxable capital gain on sale of Riverside shares (50% × $17,090)	$8,545
Taxable capital gain on sale of Fruitsen shares (50% × $2,140)	1,070
Total taxable capital gains	$9,615
Allowable capital loss arising from the restricted loss from BIL above	$35,000
Less used in 2022 to reduce taxable capital gains, as above	(9,615)
Net capital loss carryover	$25,385

Net taxable capital gain to be reported is, therefore, $0 ($9,615 - $9,615), and Juliette will claim a deduction for the ABIL of $5,000 against other income for the year.

The $25,385 net capital loss carryover can be carried back up to three years or forward indefinitely.

For Assessment Opportunity #12, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to calculate the impact of the sale of shares on Juliette's income.

Competent – The candidate calculates the impact of the sale of shares on Juliette's income.

Competent with distinction – The candidate thoroughly calculates the impact of the sale of shares on Juliette's income.

Assessment Opportunity #13 (Depth Opportunity)

The candidate estimates Juliette's federal taxes payable.

The candidate demonstrates competence in the Taxation role.

CPA Map Technical Competencies(based on the 2022 CPA Competency Map):		Core	E4 TAX
6.3.2	Evaluates income taxes payable for an individual	B	A

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Juliette's Taxable Income Calculation

Salary from Bold	$250,000
Taxable eligible dividends	15,900
Taxable capital gains	9,615
Allowable capital loss	(9,615)
ABIL	(5,000)
Deduction for CPP enhanced contributions	(461)
Net income for tax purposes	260,439
Division C deductions	0
Taxable income	$260,439

Non-refundable tax credits

Personal amount		$12,719
Canada Employment amount		1,287
EI		953
CPP		3,039
Tuition (Note 1)		3,824
Medical (Note 2)		2,373
Total basis for tax credits		24,195
Rate		15%
Tax credits before charitable donations and dividend tax credit		3,629
Charitable donations tax credit (Note 3):		
On the first $200: 15%	$30	
On the remainder: 33% (= $18,000 - 200) × 33%	5,874	5,904
Dividend tax credit:		
[$15,900 - (15,900/1.38)] × 6/11		2,388
Total non-refundable tax credits		$11,921

Note 1: Tuition credit transfer

Transfer of tuition amount from Sophia:		
Lesser of:		
1) Maximum		$5,000
2) Tuition fees	$12,000	
Sophia's taxable income:		
Employment income	18,000	
Scholarship income – exempt	0	
Deduction for CPP enhanced contributions	(75)	
Net income and taxable income	17,925	
Basic personal amount	(14,398)	
CPP and EI: (855 + 284 - 75)	(1,064)	
Canada employment	(1,287)	
Remainder	1,176	
Maximum less remainder		3,824
Transfer to Juliette:		$3,824

Note 2: Medical expense credit

Qualifying expenses for Juliette and Sophia:		
Sophia's medical expenses		$650
Less: 3% of Sophia’s income ($17,925)		(538)
Private health plan premiums		3,260
Prescriptions – Juliette		1,480
		4,852
Deduct the lesser of:		
1) 3% of Juliette's net income	$7,813	
2) Base amount	2,479	(2,479)
		$2,373

We have assumed that Sophia is 18 years of age or older since she is in university. Juliette can claim medical expenses for her as Sophia is dependent on her; however, the expenses must be reduced by 3% of Sophia’s net income.

Note 3: Donation tax credit

Since Juliette's income is in the 33% tax bracket, and the amount of donation ($18,000) is less than the amount that her income exceeds the bottom of that bracket ($260,439 - $221,709 = $38,730), the portion of the donation creditable at the higher rate is at 33% rather than 29%.

Federal Income Taxes Payable

Base		$51,345
Excess over: $221,708	33.0%	12,781
Federal tax before non-refundable tax credits		64,126
Less: non-refundable tax credits		(11,921)
Federal tax payable		$52,205

Therefore, Juliette's federal income tax payable for the year is $52,205.

For Assessment Opportunity #13, the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to calculate taxes payable for Juliette.

Competent – The candidate calculates taxes payable for Juliette.

Competent with distinction – The candidate thoroughly calculates taxes payable for Juliette.

APPENDIX D

SEPTEMBER 14, 2023 – DAY 3
SIMULATIONS AND MARKING GUIDES

COMMON FINAL EXAMINATION
SEPTEMBER 14, 2023 – DAY 3

Case #1 **(Suggested time: 75 minutes)**

Inspired by the positive environmental impact of community repair workshops in other cities, Sami Hussein incorporated Do-It-Yourself with Help Inc. (DH) on December 1, 2021, in Wellyton, SK. He wanted to enable customers to repair household items so they could prevent these items from ending up in the landfill and avoid new purchases, while also saving customers the cost of purchasing the necessary repair tools. DH has three revenue streams:

- In-store use of DH's equipment, so customers can repair or build something themselves. Well-trained staff circulate to help customers with projects.
- Tool rental for at-home use.
- Classes on various do-it-yourself skills.

Today is January 30, 2023. DH had a good first full year of business, and Sami recently hired you, CPA, as an external advisor.

Sami starts: "I want to expand the size of our shop. However, before extending further financing, our lender requires DH's audited financial statements in accordance with ASPE for the year ended December 31, 2022. The audit starts next week.

"My niece, Lily, a university business student, handles the bookkeeping and administrative duties, and she has prepared draft financial statements (Appendix I). I did not oversee her work. She mentioned that she doesn't know how to account for our new arrangement with ToolMania. While it's important to me that DH provides quality tools, they're very expensive. To solve this, I approached ToolMania, a reputable tool manufacturer. In January 2022, they agreed to give us small tools in return for us hanging a large sign advertising their brand in the shop for the next three years (Appendix II).

"Please calculate our federal corporate income taxes payable. Speaking of taxes, our external payroll provider has asked us for the amount of taxable benefits to include on each employee's T4. We treat our employees well, since attracting and retaining knowledgeable and friendly staff is critical for our business. Of the benefits we provide, which ones are taxable?

"I talked to the auditors about our first audit, and summarized my notes (Appendix III). I need your help in understanding their audit plan. DH is profitable, I'm the only shareholder, and Lily has everything under control, so what risks could they have identified and why do they need to perform a significant amount of audit procedures to respond to them? Where is this materiality figure coming from, and how is it determined? And audit approach? Please explain all of this to me and suggest ways we can lower our audit fee in the future.

“To increase our positive environmental impact, we are converting DH’s facility to be solar powered (Appendix IV). Please assess the options quantitatively and qualitatively, and recommend one.

“And finally, since I want the business to grow quickly, I think it is important to have formal vision, mission, and value statements going forward. I tried drafting them, based on some examples I found on hardware stores’ websites (Appendix V). Do you think they are appropriate for DH?”

APPENDIX I
EXCERPTS FROM DRAFT DH FINANCIAL STATEMENTS

Balance Sheet
As at December 31, 2022

		Note
Assets		
Cash	$ 39,000	
Supplies	6,000	
Prepaid expenses	2,000	
Property, plant, and equipment	1,082,800	1
Loans receivable	30,000	2
Total assets	$ 1,159,800	
Liabilities		
Accounts payable	$ 22,000	
Due to shareholder	91,800	
Current portion of mortgage	36,000	
Mortgage	828,000	3
Shareholder's equity		
Common shares	10,000	
Retained earnings	172,000	4
Total liabilities and shareholder's equity	$ 1,159,800	

Income Statement
For the year ended December 31, 2022

		Note
Revenue	$ 1,586,000	
Expenses		
Compensation	1,160,000	5
Office	100,000	6
Advertising	55,000	7
Depreciation	34,000	1
Utilities	30,000	
Interest on mortgage	20,000	
Total expenses	1,399,000	
Net income	$ 187,000	

APPENDIX I (CONTINUED)
EXCERPTS FROM DRAFT DH FINANCIAL STATEMENTS

Notes:

1. DH recorded no additions or disposals during the year. Depreciation relates to Property, Plant, and Equipment. The following table has the opening undepreciated capital cost (UCC) balances:

Item	2022 Opening UCC
Land	N/A
Building	$796,000
Tools (each over $500)	97,500
Computer equipment	18,600

2. DH offers $5,000 interest-free loans to employees, to purchase an e-bike. Six employees took DH up on this offer on July 1, 2022, when the policy was first introduced. The loans will be repaid in $1,000 increments over five years.

3. The cost of $1,000 to secure this financing was expensed in 2021. The building and land are collateral for the mortgage.

4. At the end of 2021, the non-capital loss carryover balance was $14,200.

5. In addition to wages, the compensation expense includes the following:

   Training

   Each employee is trained to be an expert in their specialty. This training normally costs $2,000 per employee.

   Public transit passes

   As part of DH's commitment to the environment, employees are provided with a $90 public transit pass each month.

   Uniforms and safety wear

   Each employee is provided with a uniform and the necessary safety equipment, which cost about $250 per employee.

APPENDIX I (CONTINUED)
EXCERPTS FROM DRAFT DH FINANCIAL STATEMENTS

Notes (continued):

Childcare

We fully subsidize childcare costs incurred by our employees during work hours. This has attracted a more diverse workforce, which is great because that helps our diverse customer base feel more at ease. It's important to DH to have an inclusive workplace.

6. This includes $5,100 for two all-staff parties: one winter party (costing $200 per employee) and one summer barbecue (costing $55 per employee). It also includes the business insurance cost of $15,000 and a cost of $2,500 for a life insurance policy on Sami, where DH is the beneficiary.

7. Advertising includes a donation to an environmentally-focused registered charity of $4,000.

APPENDIX II
NOTES ON ARRANGEMENT WITH TOOLMANIA

Sami has provided you with a list of the tools DH received from ToolMania. Using that list, you researched the price of the items on several local home hardware retailers' websites. The total retail value of the tools, each priced at less than $500, is $50,000.

You also called DH's contact at ToolMania, Tony, to better understand the arrangement.

Tony: We sell our tools to construction companies, independent contractors, and retailers. The retailers mark up our price by 25% when selling to the general public.

You: And how long before these tools typically need replacement?

Tony: If used daily, like at DH, they should last about three years.

You: How much are you saving by not paying for this advertising?

Tony: The annual cost to have a sign displayed depends significantly on the location and type of business. We pay retailers $12,000 annually to display a sign in their tool aisle.

APPENDIX III
SAMI'S NOTES ON DISCUSSION WITH THE AUDITORS

Risks

The auditors identified many risks, which will require a significant amount of audit procedures, resulting in a high audit cost.

Preliminary Materiality

- $7,500

Audit Approach

- Combined approach for payroll
- Substantive approach for all other cycles

Prior Year

- Comparative figures are not part of this engagement.

APPENDIX IV
SOLAR POWER PROJECT

Electricity is currently sourced from the City of Wellyton's electricity provider, HydroW. HydroW's price is set by the government annually and is currently $0.20 per kWh, but prices have been increasing. DH paid $12,000 for electricity in 2022. DH is considering entering into a five-year arrangement with StarPower, an energy company. Solar panels would be installed on DH's entire roof. The panels would produce 70,000 kWh per year. The following options are available:

Option 1

- StarPower rents DH's roof space and installs solar panels owned by StarPower, paying DH $5,000 annually for the roof rental.
- The electricity produced goes to StarPower.
- StarPower will sell DH all of the electricity it needs at 80% of HydroW's price.
- StarPower sells the rest of the electricity to HydroW.

Option 2

- DH rents panels from StarPower for $5,000 annually, under an operating lease.
- DH keeps the electricity it needs for its own purposes and sells the excess to StarPower, at the market rate for electricity at time of sale. The rate fluctuated between $0.14 and $0.25 per kWh in the past year.
- If additional electricity is needed, it would be purchased from StarPower, and a $10,000 annual fee would need to be paid.
- DH would have to rent a battery for $100 per month to store the electricity produced on sunny days, for use at night and when cloudy.

Note:

The government is considering providing an incentive to businesses that own or rent solar panels, based on the electricity produced.

APPENDIX V
DH'S VISION, MISSION, AND VALUES

Vision

To be the top earning company in the home repair industry.

Mission

To provide the broadest range of tools at competitive prices.

Values

- Respect
- Teamwork
- Fast and low-cost service
- Ingenuity

MARKING GUIDE 3-1
DO-IT-YOURSELF WITH HELP INC. (DH)
ASSESSMENT OPPORTUNITIES

To: Sami Hussein
From: CPA
Subject: DH

Assessment Opportunity #1 (Depth and Breadth Opportunity)

The candidate discusses the accounting treatment for the new arrangement with ToolMania.

The candidate demonstrates competence in Financial Reporting.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
1.2.3	Evaluates treatment for non-routine transactions	**B**

CPA Map Enabling Competencies:
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions
6.3.3 Applies decision criteria to choose among viable alternatives

Non-Monetary Transaction

The exchange of small tools for advertising services is a non-monetary transaction. Paragraph 6 of ASPE 3831 *Non-monetary transactions* provides the following guidance:

> "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;"*

This criterion is not met – the transaction has commercial substance. See discussion below.

(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;"*

This criterion is not met – the small tools are not held for sale in the ordinary course of business as they are used by customers when working on their projects. Also, advertising is not a product or property to be sold in the same line of business that DH is in.

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

This criterion is not met – the fair value of the assets received can be reliably measured. The fair value of the advertising services is less reliable. See discussion below.

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

This criterion is not met. The transaction is a reciprocal transfer (not a non-reciprocal transfer to owners) and is not related to a spin-off.

Commercial substance

Paragraph 11 of ASPE 3831 provides the following guidance on commercial substance:

.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.

.12 The configuration of future cash flows is composed of the risk, timing and amount of the cash flows. A change in any one of these considerations is a change in the configuration.

.13 *Entity-specific value, resulting from entity-specific measurement, differs from fair value. It attempts to capture the value of an item in the context of the reporting entity. The entity uses its expectations about its use of the asset rather than the use assumed by marketplace participants. When a transaction has commercial substance, it is measured at fair value rather than entity-specific value."*

It would seem that (a) is met. If DH had to purchase these tools itself, an upfront cash outlay of $50,000 would have been required if the tools were purchased from a retailer, or $40,000 if they were purchased from ToolMania ($50,000 ÷ 1.25). The advertising revenue of $12,000 received would be coming in annually. As such, both the timing and the amount of cash flows differ, which suggests that the transaction has commercial substance.

Fair Value

There are two potential values for the small tools received: the value of a purchase from a retailer ($50,000); and the value of a purchase from ToolMania directly ($50,000 ÷ 1.25 = $40,000). ToolMania sells to retailers, construction companies, and independent contractors (i.e., business to business, versus business to customer). It is likely that they would have seen DH as an appropriate business to supply, especially given that they agreed to this arrangement. Using the $40,000 as the fair value for DH is appropriate.

As for the value of the advertising provided, it is more difficult to determine a reliable value. The annual cost to have a sign displayed depends significantly on the location and type of business. ToolMania has never before advertised in a business such as DH. The closest value we have is the amount that would be received annually if the sign was displayed at a retailer, which DH is not, and it is also likely that the retailer is not in the same location as DH. The advertising revenue would be $12,000 × 3 years = $36,000 if displayed at a retailer.

As it is more difficult to determine a reliable value for the advertising, the fair value of the tools received ($40,000) should be used. The tools represent capital assets that need to be depreciated over their useful life of three years. The revenue will be earned over the three years, during which time the sign needs to be displayed. The following are the journal entries for 2022:

	Dr	Cr
DR PP&E	$40,000	
CR Advertising revenue		$13,333
CR Deferred advertising revenue		$26,667

	Dr	Cr
DR Depreciation expense	$13,333	
CR Accumulated depreciation		$13,333

For Assessment Opportunity #1 (Financial Reporting), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss the accounting treatment for the new arrangement with ToolMania.

Competent – The candidate discusses the accounting treatment for the new arrangement with ToolMania.

Competent with distinction – The candidate thoroughly discusses the accounting treatment for the new arrangement with ToolMania.

Assessment Opportunity #2 (Breadth Opportunity)

The candidate calculates federal corporate taxes payable.

The candidate demonstrates competence in Taxation.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
6.2.2	Advises on taxes payable for a corporation	**B**

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

		Note	
Income per financial statements			$ 187,000
Accounting adjustments			
	Advertising revenue	1	13,333
	Depreciation on small tools	1	(13,333)
Add back			
	Depreciation ($34,000 + $13,333)		47,333
	Donation	2	4,000
	Deferred advertising revenue	3, 4	26,667
	Life insurance	5	2,500
Deduct			
	CCA	6	(101,570)
	Reserve for undelivered goods and services	4	(26,667)
	2021 financing costs ($1,000 ÷ 5)	7	(200)
Net income for tax purposes			139,063
Less: Division C deductions			
	Donation	2	(4,000)
	Non-capital loss carryover		(14,200)
Taxable income			120,863
Taxes payable		8	$ 10,878

Notes:

1. Net income for tax purposes starts with net income for financial statement purposes, so the adjustment made above needs to be reflected in the opening number.
2. Charitable donations are not deductible from net income for tax purposes but are deductible from taxable income if they are less than 75% of net income for tax purposes, which is met in this instance.
3. Non-monetary transactions, for income tax purposes, are recorded at the price that the taxpayer would normally have charged a third party for the services. However, where the goods or services given up cannot readily be valued but the goods or services received can, value of the latter should be used as the price at which the transaction took place. Therefore, we can follow the accounting treatment for the valuation of the revenue to be recognized.

4. Deferred revenue is a financial statement reserve, which for income tax purposes is not deductible. However, paragraph 20(1)(m) of the Income Tax Act allows a specific reserve for "services that it is reasonably anticipated will have to be rendered after the end of the year." Therefore, a deduction is claimed for the same amount.
5. Life insurance is only deductible from business income if the policy was taken out as a requirement of financing. We do not have any information suggesting that the policy was required by the lender, but this should be confirmed before we complete the tax return.
6. CCA calculation:

Class	Beginning UCC	Additions	Dispositions	Subtotal	UCC for CCA	CCA	Rate
Class 1	$ 796,000			$ 796,000	$ 796,000	$ 31,840	4%
Class 8	$ 97,500			$ 97,500	$ 97,500	$ 19,500	20%
Class 12*		$ 40,000		$ 40,000	$ 40,000	$ 40,000	100%
Class 50	$ 18,600			$ 18,600	$ 18,600	$ 10,230	55%
Total	$ 912,100	$ 40,000		$ 952,100		$ 101,570	

* The small tools acquired during the year should be valued at the same amount as the revenue to be recognized (see Note 3, earlier), which is $40,000. Small tools acquired for less than $500 each are included in Class 12, and most tools in Class 12 are not subject to the half-year rule. However, even if some of these tools are ones that are normally subject to the half-year rule (such as dies, jigs, patterns, moulds, and lasts), DH would be able to deduct the full amount of additions in the year under the accelerated investment incentive or, alternatively, using the immediate expensing provisions. In any case, the amount of deduction for these additions for 2022 is the full amount acquired in the year.

7. Financing costs are not deductible immediately for tax purposes but, under paragraph 12(1)(x), one-fifth may be deducted in each year until the full cost has been deducted. $1,000 was incurred in 2021, so $200 is deductible in 2022.
8. DH is a CCPC as it is controlled by Sami, who is a Canadian resident. It only earns business income, so all income is active business income eligible for the small business deduction, which is taxed at an effective tax rate of 9%.

Deductibility of Staff Parties

Up to six parties per year, where all staff are invited, are fully deductible, as opposed to being only half deductible (such as for other meals and entertainment costs). There is no dollar limit to the amount that is deductible, provided that it is reasonable in the circumstances. Because there are only two staff parties (less than six) and all staff are invited, the cost of these parties is fully deductible.

For Assessment Opportunity #2 (Taxation), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to calculate the federal corporate taxes payable.

Competent – The candidate calculates the federal corporate taxes payable.

Competent with distinction – The candidate thoroughly calculates the federal corporate taxes payable.

Assessment Opportunity #3 (Breadth Opportunity)

The candidate discusses the taxable benefits.

The candidate demonstrates competence in Taxation.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
6.3.2	Evaluates income taxes payable for an individual	**B**

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions
6.3.3 Applies decision criteria to choose among viable alternatives

The following perks provided to employees are taxable benefits.

Public Transit Passes

Per CRA administrative policy, these are taxable benefits (unless your company is in the business of operating public transit, which it is not). The fair value of these benefits needs to be included on the employees' T4s.

Staff Parties

As per CRA administrative policy, because the winter party cost more than $150 per person, the full $200 per person is considered a taxable benefit to each employee. The summer barbecue, which only cost $55 per person, is not considered a taxable benefit because it is under the $150 threshold.

Childcare

For employer-provided childcare to be non-taxable, it would need to be provided onsite, managed by DH, provided to all employees at no, or minimal, cost, and be available to only employees, not the general public. This does not sound like what you are providing. Instead, it seems that you are contributing toward the cost of childcare that your parent-employees have arranged, wherever it may be. The CRA administrative benefit states, "If not all of the conditions are met, the taxable benefit is the fair market value (FMV) minus any amount that the employee pays for the service." Thus, the amount you are subsidizing for each employee is taxable to them.

However, the amounts incurred for the childcare services may be deductible by the employees (or their spouses, depending on their specific situations).

Employee Loans

The six employees who are enjoying interest-free loans will have a deemed interest benefit that is taxable, calculated as follows for 2022 (from July 1, 2022, to December 31, 2022):

$5,000 × 2% (CRA prescribed rate for Q3) × 92 ÷ 365 + $5,000 × 3% (CRA prescribed rate for Q4) × 92 ÷ 365 = $63.01 each

The following perks provided to employees are not taxable benefits.

Training

Because the training seems to be employment-specific (expert in their respective department), this is mainly to the benefit of the employer, and therefore not taxable, per CRA administrative policy.

Uniforms and Protective Gear

Per CRA administrative policy, employer-provided uniforms for employees to wear while working, and protective gear in order to remain safe on the job, are not considered taxable benefits, as these are to the benefit of the employer rather than the employee.

Sami's Life Insurance

Since DH is the beneficiary of the policy, there is no taxable benefit to Sami for the life insurance premium paid by DH.

For Assessment Opportunity #3 (Taxation), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss some of the taxable benefits.

Competent – The candidate discusses some of the taxable benefits.

Competent with distinction – The candidate discusses several of the taxable benefits.

Assessment Opportunity #4 (Breadth Opportunity)

The candidate discusses the audit plan.

The candidate demonstrates competence in Audit and Assurance.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
4.3.4	Assesses materiality for the assurance engagement or project	**B**
4.3.5	Assesses the risks of the project, or, for audit engagements, assesses the risks of material misstatement at the financial statement level and at the assertion level for classes of transactions, account balances, and disclosures	**B**
4.3.6	Develops appropriate procedures, including Audit Data Analytics (ADA), based on the identified risk of material misstatement	**B**
4.3.11	Prepares or interprets information and reports for stakeholders using data visualization where appropriate	**B**

CPA Map Enabling Competencies:
2.2.1 Assists in identifying and monitoring risks within areas of work responsibility
2.2.2 Recognizes the importance of internal controls within areas of work responsibility
5.1.1 Applies general business knowledge to enhance work performed
5.1.3 Develops and uses knowledge of the organization, industry and stakeholders
6.1.1 Identifies and articulates issues within areas of work responsibility
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions
7.1.1 Targets message content and tone to meet audience needs within areas of work responsibility

Risk

The auditor's assessment of risk is not related to how well the business is performing, or at least, not directly. The auditor is trying to determine the likelihood that there are material misstatements in the financial statements, either due to fraud or errors. These risks could be inherent (due to a factor other than the failure of an internal control), or control-related (due to a poor control environment).

From the auditor's perspective, the following considerations likely came into play in their assessment of inherent risk:

- The lender has asked for audited financial statements, to assist them in making a decision about whether to extend additional financing to DH. This may have created an incentive to show DH's 2022 financial results in a better light, potentially purposefully misstating certain things or using aggressively optimistic estimates. This increases the risk of material misstatements in the financial statements.

- Your niece has done all the bookkeeping and prepared the draft financial statements, with minimal oversight. She is still a university student and may not have the experience or advanced knowledge needed to record everything correctly. As noted, she did not know how to account for the non-monetary transaction. This increases the risk that she may have made errors in new or complex transactions in the financial statements.
- As this is the first year that DH is being audited, there is a risk of material misstatements due to the opening balances never having been audited before. Therefore, there is a risk of errors existing in the opening balances, including common shares, mortgage, and property, plant, and equipment.
- DH has three different revenue streams, which may have different revenue recognition policies and timing. Assuming that each stream is significant, there could be risks of material misstatement in all three revenue streams if there are not adequate controls in place to prevent and detect errors.

As for control risk, it is about having effective internal controls, to ensure accurate financial reporting. Internal controls are "policies or procedures that an entity establishes to achieve the control objectives of management or those charged with governance" (CAS 315.12 c). Lily performing all of the bookkeeping and accounting processes herself does not of itself ensure that DH has effective internal controls over financial reporting:

- You noted yourself that Lily does everything that is bookkeeping- and administrative-related. This suggests that there is insufficient segregation of duties. When one person does everything, there is greater opportunity for errors and fraud to occur (which does not mean it has happened).
- You also noted that you are providing no oversight. Without someone reviewing her work, errors and fraud, if they exist, can go undetected.

Without knowing more about your control environment, I cannot provide any specific examples of where controls are weak. The auditor will gain an understanding of your control environment as part of the audit, and may identify control deficiencies and areas for improvement in internal controls in their management letter. Where the auditors identify internal control deficiency, risks of material misstatement may exist, to which the auditor will need to respond.

Because the auditors identified those risks of material misstatement, they will have to respond to them by performing audit procedures, to gain comfort that the financial statements are free from material misstatements.

To help reduce your fee in the future, I recommend that you attempt to address the control deficiencies identified by the auditors. This way, in future audits, there may be fewer risks identified, and they will not have to perform additional procedures to respond to those risks. At a minimum, you should be reviewing key records (bank reconciliations, accounts receivable listings, payments over a certain monetary threshold, etc.), and approving significant transactions (investment in PPE, significant expenses, payroll expenditures, etc.), which are important controls in an owner-managed business. Also, the opening balances will not require work in the future, since the prior year will have already been audited, so that should save costs in future audits.

Audit Approach

The audit approach identifies the type of testing the auditor will employ, and is tied to their assessment of internal controls. If the auditor thinks the controls in place are effective, they may choose a combined approach (testing the controls and also performing substantive tests, such as tests of detail or substantive analytical procedures). By testing the controls, the auditor will be able to reduce the number of substantive tests required. If controls are not in place or do not appear effective, the auditor will not rely on them, and instead perform a fully substantive audit.

Substantive tests of detail involve the auditor requesting documentation to support a sufficient number of transactions, to help them gain comfort that the financial statements are not materially misstated. They will look at bank statements, deposit slips, cancelled cheques, sales invoices, purchase invoices, purchase orders, packing slips, time records, contracts, etc., and agree them to the amounts recorded in the general ledger. This can be time consuming and may be why the audit fee seems high.

Substantive analytical procedures require the auditor to understand the business and information systems sufficiently, to be able to form expectations of balances and ratios. These expectations are compared to the recorded values and, if there are differences that exceed a threshold set by the auditor, they then need to follow up on those differences, to determine if a material misstatement exists. If balances are not highly predictable, there may be many differences that require investigation, resulting in higher audit fees.

Testing controls that are operating effectively can be more efficient, and if those tests of control are successful, less substantive work needs to be done, which may result in a lower audit fee in the future. It is for this reason that I suggested above that you attempt to implement the controls they suggest. Your revenue streams in particular are likely to have a high volume of low-value transactions, and would be a good candidate for control testing.

The auditor plans to use a combined approach for the payroll cycle. This is likely because you are using a reliable payroll provider. The payroll provider may have had a service organization audit performed, which reports on the effectiveness of their controls. The auditor may be able to rely on this service auditor's report, to help reduce the necessary substantive testing over your payroll.

Materiality

The materiality figure attempts to capture the amount of a financial statement misstatement that would influence the economic decisions of the users of the financial statements (either you or your lender, who are the two main users). You may not be particularly sensitive to errors in the financial statements, but your lender is using the financial statements to determine whether they are going to lend you the money to expand the shop. As a result, they may be quite sensitive to errors in the financial statements.

The lender would want to ensure that the amount they lend you, and the related interest, can be repaid. Normally, a user would use the operating income figure as an indicator of this ability, especially with a for-profit entity.

Your auditor has chosen preliminary materiality of $7,500, which represents approximately 4% of net income before tax ($7,500 ÷ $187,000 = 4%). For profit-oriented entities, CAS 320.A5 recommends a materiality base of profit before tax from continuing operations, and CAS 320.A8 suggests that a percentage of 5% be applied. The sensitivity of DH's lender, mentioned above, supports the auditor's use of a percentage that is below the suggested 5%. Materiality calculated using net income before tax typically falls in the range of 3% to 7%; therefore, DH's materiality is in the lower end of the range due to the sensitivity of the lender. Note that this amount will have to be adjusted by the auditors with any errors found that affects net income before tax.

The auditor will also determine performance materiality, which is typically somewhere between 50% and 90% of materiality, depending on the expected misstatements in the financial statements. The performance materiality is used to determine the amount of substantive testing to perform (i.e., it is one of the variables in sampling formulas, and it influences the threshold set for substantive analytical procedures). The lower the performance materiality is, the greater the extent of testing required.

The auditor will compare any errors found during the audit to the $7,500 materiality. If an error, or the aggregate of errors, is found to be higher than $7,500, the auditor will ask you to correct the error(s) in order to issue an unqualified audit opinion. If unadjusted errors exceed the $7,500 materiality, the auditor will be required to issue a qualified audit opinion.

For Assessment Opportunity #4 (Audit and Assurance), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss the audit plan.

Competent – The candidate discusses the audit plan.

Competent with distinction – The candidate thoroughly discusses the audit plan.

Assessment Opportunity #5 (Depth and Breadth Opportunity)

The candidate analyzes the solar power project and provides a recommendation.

The candidate demonstrates competence in Management Accounting.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
3.5.1	Performs sensitivity analysis	A
3.5.2	Evaluates sustainable profit maximization and capacity management performance	A

CPA Map Enabling Competencies:
6.1.2 Uses quantitative and qualitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

To help you decide which option should be chosen, I prepared a quantitative and qualitative analysis.

Quantitative Analysis

Option 1

I calculated that, under this option, DH would see its annual cash flows increase by $7,400.

Cash Flow Item	Note	Incremental Cash Flows
Revenue from roof rental		$5,000
Electricity cost savings	1	$2,400
Total		$7,400

Note 1: Electricity consumption costs would amount to $9,600, assuming the same electricity consumption and price per kWh as in 2022 ($12,000 × 80%). This is a saving of $2,400 compared to 2022 ($12,000 - $9,600).

Option 2

Under this option, the cash flow differential depends on the market price at which the electricity can be sold. I prepared a sensitivity analysis to determine what the cash flow differential would be under the lowest and highest market rates observed in the last year.

Cash Flow Item	Note	Lowest Market Rate of $0.14	Highest Market Rate of $0.25
Revenue from electricity sold	2	$ 1,400	$ 2,500
Electricity savings		$ 12,000	$ 12,000
Solar panel rental		$ (5,000)	$ (5,000)
Battery rental cost	3	$ (1,200)	$ (1,200)
Total		$ 7,200	$ 8,300

Note 2: DH is currently using 60,000 kWh ($12,000 ÷ $0.20). The panels would produce 70,000 kWh, leaving 10,000 kWh in excess to sell, at the following rates:
Lowest market rate: $0.14 × 10,000 kWh = $1,400
Highest market rate: $0.25 × 10,000 kWh = $2,500

Note 3: It would cost $1,200 annually for the battery rental ($100 × 12 months).

With this analysis, we can see that the lowest market rate would produce slightly lower incremental cash flows than Option 1, but the highest market rate would produce higher incremental cash flows than Option 1. We can also calculate the market rate that would produce the same incremental cash flows as Option 1. Without the revenue from the electricity sold, Option 2 produces incremental cash flows of $5,800 ($12,000 - $5,000 - $1,200). It would therefore take $1,600 of additional revenue to equal the incremental cash flows of $7,400 produced by Option 1 ($7,400 - $5,800). Selling 10,000 kWh for $1,600 would mean selling at a rate of $0.16 per kWh. The average market rate in the past year was $0.195 (($0.14 + $0.25) ÷ 2), which exceeds the minimum rate required to produce as much additional cash flows as Option 1.

From a quantitative perspective, Option 2 seems better, as the incremental cash flows are higher than in Option 1. However, this does not consider the fact that there is a $10,000 annual fee to pay if DH ends up not producing enough power for its own needs, and needs to buy electricity from StarPower. If DH ends up in this situation, Option 1 will clearly be better than Option 2. Also, there is more risk involved with Option 2, since the market rate fluctuates and could end up being lower in the future than it has been in the past.

Qualitative

From a qualitative perspective, there are many factors to consider.

Electricity needs

DH is currently using 60,000 kWh of electricity on an annual basis, as calculated above. This is 86% of the capacity produced by the solar panels (60,000 ÷ 70,000). Under Option 1, StarPower will sell DH all of the electricity it needs, so even if the solar panels installed on the roof do not produce as much electricity as DH needs, DH will have enough power to operate. However, if Option 2 is chosen, DH needs to ensure that the solar panels will be sufficient to cover its needs, at least for the next five years, since a $10,000 annual fee will be incurred if the power produced is not sufficient to power DH, and it will be more expensive to have switched to solar power than it would have been to purchase electricity from HydroW. Given the potential expansion to the shop that is being considered, and depending on whether solar panels could be installed on that part of the shop as well, DH might not be able to produce all of the electricity it needs. Having a reliable source of power is crucial for your business, as your customers are using many powered tools while working in the shop, so efforts to control the electricity use might only have a limited effect on consumption.

The production of 70,000 kWh per year is also an average, so there is a possibility that less electricity is produced in a specific year, or during certain periods of the year, or that DH uses more electricity in the future than it has in the past year, and that there is not enough electricity produced to meet DH's needs. The $10,000 annual fee would make Option 2 significantly worse than Option 1, and also worse than purchasing electricity from HydroW.

Government potential incentive

We do not have any details on this, but if the government was to provide an incentive for businesses owning or renting solar panels, it would have a positive impact on cash flows of Option 2, since DH would be renting the panels under that option. This incentive would not be available to DH under Option 1.

Management involvement

Under Option 1, StarPower manages the electricity produced and DH does not have to manage the process. However, under Option 2, DH would likely need to manage the electricity produced, by making sure enough electricity is stored for when it is cloudy or for night time. It would also have to track the electricity used, to ensure that the electricity needs are not greater than the electricity produced in order to avoid the $10,000 annual fee for purchasing electricity. There is more management involvement with Option 2 than with Option 1.

Assumptions used

You mentioned that HydroW prices are increasing. A future increase in prices would impact the results of the analysis above, for both options, since the electricity cost savings would be higher than calculated above, increasing the incremental cash flows calculated. However, since the price of the electricity purchased from StarPower under Option 1 is based on the HydroW rate, an increase in rate would advantage Option 2 over Option 1.

As mentioned above, the electricity produced and/or DH's electricity needs might be different than the historical data shows. In addition to being of concern in terms of capacity for Option 2, this also has an impact on the quantity of electricity that can be sold under Option 2, therefore changing the results of the analysis.

The market rates used for the analysis are from data from the previous year. However, nothing guarantees that these rates will remain within this threshold in the future. Rates outside of this threshold would have an impact on the results of the analysis.

Recommendation

Option 1 provides more stability in terms of future cash flows, while there is more risk involved with Option 2, but greater potential of incremental cash flows, especially since the worst-case scenario shows incremental cash flows that are almost as high as for Option 1. Given the risk of not producing enough power under Option 2 and having to incur a $10,000 annual fee to be able to purchase electricity, I recommend going with Option 1, to ensure that DH does not end up in a position where the solar power project provides negative cash flows. However, if the potential expansion provides more roof space on which solar panels can be installed, and the electricity that will be created exceeds the additional needs that the potential expansion would create, capacity might not be as much of an issue, and Option 2 might become more interesting.

For Assessment Opportunity #5 (Management Accounting), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to analyze the solar power project.

Competent – The candidate analyzes the solar power project and provides a recommendation.

Competent with distinction – The candidate thoroughly analyzes the solar power project and provides a recommendation.

Assessment Opportunity #6 (Breadth Opportunity)

The candidate discusses the company's vision, mission, and values.

The candidate demonstrates competence in Strategy and Governance.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core
2.2.1	Assesses whether management decisions align with the entity's mission, vision and values	B

CPA Map Enabling Competencies:
5.1.1 Applies general business knowledge to enhance work performed
5.1.3 Develops and uses knowledge of the organization, industry and stakeholders
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

You said that you drafted your vision, mission, and values, based on some examples you found online for hardware stores. After talking with you about your business and then reading these statements, I am concerned that what was right for some retail hardware stores is not right for you.

For example, your vision mentions that you want DH to be the top-earning company in the home-repair industry. Never once when describing your business did you mention the importance of profit. While I am sure that this is a goal you have, it does not sound like the inspiration behind your business. In fact, your whole business was inspired by the environmental benefits of repairing an item versus throwing it out and buying new, as well as saving customers from buying tools by sharing the needed tools. You also provide public transit passes and loans for e-bikes to your employees, and are installing solar panels. It is clear that your environmentalism is a driving force behind this business, and we need to showcase that in these statements.

Your mission statement talks about having the broadest range of tools, at competitive prices. That might be appropriate for a retail hardware store that wants to have a large selection of both types of tools and brands, but it does not seem right for you. You may have all the different types of tools that someone could need, but you seem to offer a limited number of brands (all your small tools are ToolMania brand). One main reason for that was the importance to you to provide quality tools for use in the shop or for rental to others. You also mentioned the importance of hiring and retaining knowledgeable and friendly staff (training them to be experts in their department). Instead of focusing on the broad range of tools, I think your statement should focus on the quality of the tools you provide, and the exceptional service that a customer can expect. As for competitive prices, the statement could draw attention to the fact that, by repairing items and using rented tools, the customer ultimately saves money.

You mentioned that you wanted to enable customers. DH creates an environment in which they feel comfortable working on something they might not know how to do at all, and very likely might not be good at, providing support with your staff expertise, quality tools, and a variety of classes. This seems like a valid element to include in your mission statement.

As for the values, they all seem nice but, once again, I question how relevant they are to your business. For example, does anyone in the business actually work in a team?

Perhaps you consider the customer and the staff helping them a team? If so, that value is fine.

As far as the fast service is concerned, this might potentially conflict with the type of services you are offering. A fast service might be appropriate for a traditional hardware store. However, you offer services that generally require time and patience with the customers; you are helping them build or repair their own household items. Since most customers will not have the competence to repair these items themselves, you will need to spend the time necessary to train them properly. The classes you are offering are also not the type of service where a fast service is generally valued. Customers may have questions and comments, and a fast service will probably not be appreciated by them.

Low-cost service is generally a good value to have if the objective is to convince the customers to repair their household items rather than replace them, for environmental reasons. However, environmentally-friendly products or technologies are often more expensive, and focusing too much on low costs might conflict with the environmental focus you have been giving to DH.

And what role does ingenuity play? Do your staff have to showcase ingenuity in helping customers solve repair issues? The value of respect seems pretty commonplace, especially in a customer-service industry. These values might be right for your business, but please reflect to make sure that they are.

Following are some other values you may consider including:

- Treating employees well: Hiring and retaining good staff is important to you, and as such, you could add treating them well as a core value.
- Diversity and inclusion: Given your interest in supporting parents in the workforce and the personal importance you place on diversity, I think this should be one of the stated values of the business.
- Sustainability: As mentioned above, it is clear that the environmental impact this type of business has was the main inspiration behind its inception. Many other decisions you make are tied to this value. It would seem remiss not to include it.

For Assessment Opportunity #6 (Strategy and Governance), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss the company's vision, mission, and value statements.

Competent – The candidate discusses the company's vision, mission, and value statements.

Competent with distinction – The candidate thoroughly discusses the company's vision, mission, and value statements.

COMMON FINAL EXAMINATION
SEPTEMBER 14, 2023 – DAY 3

Case #2 **(Suggested time: 80 minutes)**

In June 2023, residents of Freemont, Nova Scotia, were happy that a new community health centre, Freemont Community Health Centre (the Centre), opened in their area. The Centre's mission is "to provide quality health care using highly-skilled employees." Its vision is "to provide quality and compassionate care while staying abreast of medical and technological breakthroughs." As part of its long-term vision, the Centre plans to help developing countries with their medical equipment. Today is September 25, 2023, and Tamar Hoffman, the CEO of the Centre, has hired you, CPA, as a consultant until the Centre recruits a CFO.

The accounting department consists of Neesha and Yan. To cover each other's duties when one of them is unavailable, they share a common login to the accounting system. Neesha is currently responsible for performing CFO duties but is not qualified to be the permanent CFO. She needs your help with the accounting treatment for the $1 million grant the Nova Scotia Ministry of Health (Ministry) paid to the Centre in June 2023, which is required to go toward the cost of acquisition of the building. Neesha has recorded the entire grant in revenue. The building is capitalized and amortized over 40 years, and amortization started in June 2023. The Centre follows Accounting Standards for Not-for-Profit Organizations (ASNPO), uses the deferral method, and has a May 31 year end. Although Tamar does not review Neesha's work, she is happy with the first-quarter results.

On September 15, 2023, the Centre received a $500,000 donation. The donor advised that the money could be used for anything at the Centre. The Board of Directors (the board) decided to use these funds to buy equipment for the new rehabilitation facility, which is set to open in September 2025, and to invest the funds until then. Neesha wants your advice on the accounting treatment for this donation. In addition, Tamar wants you to analyze the investment options (Appendix I). She would like the investment return to cover the rehabilitation facility's budgeted marketing costs of $70,000 for its first year of operations.

The board approved a motion to finance an additional ambulance for patient transfers. Tamar asks you to analyze the financing options and recommend one (Appendix II).

Tamar would like to improve internal controls, and she asks you to discuss the control weaknesses you identify, and recommend improvements (Appendix III).

Neesha is unsure of which basis to use for the allocation of common costs to each department. She wonders if she should use the departmental payroll costs as a basis, since she has easy access to that information. She prepared information on the departments and their common costs so you can perform the allocations for the first quarter in the way you consider the most appropriate (Appendix IV).

Finally, Neesha needs help measuring the performance of two departments: Urgent Care and Family Health. In particular, she would like you to recommend and explain key performance indicators (KPIs) that could be used to measure their performance. She also wants you to suggest actions that these departments could take to improve their performance on those KPIs.

APPENDIX I
INVESTMENT OPTIONS

Option 1

- A three-year non-redeemable guaranteed investment certificate (GIC) at 6% annual fixed interest.

Option 2

- Actively managed equity mutual funds. The funds averaged an annual return of 10% before management fees of 3% for the past two years.

Option 3

- A savings account with a return of prime minus 2%. Prime is currently 6.5%.

Option 4

- Neesha's friend, a certified financial planner, manages his own investments online and has offered to show Neesha how it works. He made a 10% return last year.

APPENDIX II
FINANCING OPTIONS FOR NEW AMBULANCE

The ambulance and related equipment will cost $180,000. It will likely last 14 years, but the Centre expects to replace it after 10 years to keep up with technology. Board approval will be required if the total annual payments are above $60,000.

Option 1

- Three-year bank loan from Freemont County Bank
- Interest: Variable rate of prime (currently 6.5%) plus 3%, payable monthly
- Monthly principal payments: $5,000
- Secured by the assets financed

Option 2

- Five-year bank loan with Nova Scotia International Bank
- Monthly blended payments: $4,100
- Secured by all of the Centre's assets

Option 3

- Five-year lease of ambulance and equipment from Medi-Lease Inc.
- Monthly payments: $2,800
- The assets are returned to Medi-Lease at the end of the operating lease. Medi-Lease then sells them to developing countries at an affordable price.

APPENDIX III
MAIN PROCESSES

Yan prepares the bank reconciliation. Neesha reviews it if Yan runs into problems. Yan also prepares the account coding and enters all supplier invoices in the accounting system when he receives them from the various departments. Yan pays the suppliers every two weeks, and Neesha signs off on the total disbursement after asking Yan if all is good with the payments.

Neesha prepares the budget, financial statements, payroll for the whole Centre (which is the biggest cost of each department), and reports for the Ministry. Neesha also supervises other department managers.

Timesheets are maintained by each employee and sent to Neesha once every two weeks on the same day that payroll is processed. Neesha approves the timesheets after quickly glancing at them to ensure that they look reasonable.

Department managers are given a spending budget by general ledger line item, and Yan provides them with a monthly income statement so they can review their department's performance. The managers told Neesha that they often have to ask Yan to reallocate several items to the appropriate account.

The managers use a program called Scheduling Plus to create everyone's schedules. All schedule changes go through this program, including last-minute changes for sick time, overtime, etc. This program is only used for scheduling purposes. Managers are encouraged to keep overtime to a minimum.

Each department manager has a credit card for routine purchases for their department. As part of Yan's monthly bank reconciliation, he checks their monthly credit card statements against the invoices. Managers provide invoices for purchases above $1,000. Yan codes all other expenses based on the vendor's name.

APPENDIX IV
INFORMATION ON THE CENTRE'S DEPARTMENTS AND COMMON COSTS

The Centre has four departments that share costs: Urgent Care, Inpatient, Family Health (outpatient medical clinic), and Long-term Care. The common costs to be allocated among the departments come from three cost centres: IT Support Desk, Cleaning, and Kitchen.

First Quarter Common Costs

Cost Centre	Total Costs
IT Support Desk	$14,250
Cleaning	$36,432
Kitchen	$32,715

Various Department Statistics – First Quarter (92 days)

Item	Urgent Care	Inpatient	Family Health	Long-term Care
Revenue	$320,000	$275,000	$350,000	$180,000
Payroll costs	$230,000	$170,000	$245,000	$105,000
Square footage	5,000	15,000	8,000	18,000
Number of sick days used	50	10	15	5
Number of IT support tickets	5	10	20	15
Average time per IT support ticket (in hours)	7	2	1.25	1
Number of employees	40	30	10	15
Meals delivered to patients	295	1,210	0	2,130
Cleanings per day	5	1	2	3
Hours per cleaning	2	1.5	1.5	2.5
Employee hours spent on training	0	10	40	50
Capital assets purchased	2	1	2	4
Overtime hours worked	180	100	50	75
Average patient wait time (in hours)	8	N/A	1	N/A

MARKING GUIDE 3-2
FREEMONT COMMUNITY HEALTH CENTRE (THE CENTRE)
ASSESSMENT OPPORTUNITIES

To: Tamar Hoffman
From: CPA
Subject: Various concerns of the Centre

Assessment Opportunity #1 (Depth and Breadth Opportunity)

The candidate discusses the accounting treatment for the government grant and the donation.

The candidate demonstrates competence in Financial Reporting.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
1.2.1	Develops or evaluates appropriate accounting policies and procedures	**A**
1.2.3	Evaluates treatment for non-routine transactions	**B**

CPA Map Enabling Competencies:
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions
6.3.3 Applies decision criteria to choose among viable alternatives

Government Grant

The government grant is a contribution, as per paragraph 02(b) of ASNPO section 4410 – *Contributions – revenue recognition*:

> *"A* ***contribution*** *is a non-reciprocal transfer to a not-for-profit organization of cash or other assets or a non-reciprocal settlement or cancellation of its liabilities. Government funding provided to a not-for-profit organization is considered to be a contribution.*

"There are three types of contributions identified for the purposes of this Section:

*(i) A **restricted contribution** is a contribution subject to externally imposed stipulations that specify the purpose for which the contributed asset is to be used. A contribution restricted for the purchase of a capital asset or a contribution of the capital asset itself is a type of restricted contribution.*

*(ii) An **endowment contribution** is a type of restricted contribution subject to externally imposed stipulations specifying that the resources contributed be maintained permanently, although the constituent assets may change from time to time.*

*(iii) An **unrestricted contribution** is a contribution that is neither a restricted contribution nor an endowment contribution."*

The government grant is a restricted contribution as it has externally imposed stipulations, as the Nova Scotia Ministry of Health (Ministry) requires that it must be used toward the cost of the acquisition of the building.

As the Centre reports under the deferral method, we would look to 4410.28 and .33 for guidance on how to treat the building grant of $1 million. As per paragraph 28:

"Under the deferral method, restricted contributions for which the related restrictions remain unfulfilled are accumulated as deferred contributions. As a result, the organization's excess of revenue over expenses for the period represents the increase in resources that are not restricted to cover specific expenses of a future period. Organizations that choose to follow the restricted fund method would refer to paragraphs 4410.57-*.77."*

The Centre received the $1 million for capital expenses related to the building; however, the Centre cannot record the full amount as revenue, as Neesha has done.

We now look at paragraph 33 to determine how to recognize the contribution for the building:

"Restricted contributions for the purchase of capital assets that will be amortized should be deferred and recognized as revenue on the same basis as the amortization expense related to the acquired capital assets."

As the government grant went toward the cost of the acquisition of the building, it can be recognized and brought into revenue at the same rate as the asset is amortized. The $1 million asset is recorded as a deferred contribution liability and recognized into revenue over 40 years, which means, in the initial year, $25,000 can be recognized as revenue ($1,000,000 ÷ 40). The deferred contribution balance is reduced at the same rate as the asset is amortized.

To correct the initial recognition of the grant:

DR Grant revenue	$1,000,000	
CR Deferred capital contributions		$1,000,000

To record amortization of the grant revenue for the first year:

DR Deferred capital contributions	$25,000	
CR Building grant revenue		$25,000

The Centre will have a deferred capital contribution liability of $975,000 at the end of the first year, and will recognize $25,000 per year as revenue, which will reduce the deferred capital contribution liability.

Donation

The $500,000 donation would be treated differently than the building grant, since the funds are not restricted. Further to the definition of a contribution above, paragraph 02 (c) of 4410 provides further guidance on the definition of restrictions:

> *"Restrictions are stipulations imposed that specify how resources must be used. External restrictions are imposed from outside the organization, usually by the contributor of the resources. Internal restrictions are imposed in a formal manner by the organization itself, usually by resolution of the board of directors. Restrictions on contributions may only be externally imposed. Net assets or fund balances may be internally or externally restricted. Internally restricted net assets or fund balances are often referred to as reserves or appropriations."*

As the donor stated that they could use the money for anything and therefore did not place any external restrictions on the donation, it would not meet the definition of a restricted contribution. As noted in the definition, the decision of the Board of Directors to use this donation to buy equipment for the new rehabilitation facility does not make this a restricted contribution. Therefore, the $500,000 would be an unrestricted donation.

To determine how to recognize the revenue from this unrestricted contribution, we can use the guidance from paragraphs 4410.47 and .48:

> *"Unrestricted contributions should be recognized as revenue in the current period.*
>
> *Since unrestricted contributions are for use at the organization's discretion, they are available to fund operations of current and future periods as required. This increase in economic resources is recognized when it occurs by reporting such contributions as revenue of the current period."*

As the donation did not have externally imposed restrictions, the full $500,000 must be recognized as revenue in the current period. Even though there is no plan to spend the funds until 2025, the revenue must still be recorded in September 2023, when the donation was received:

	DR	CR
DR Cash	$500,000	
CR Donation		$500,000

Although this contribution is not restricted, the board has decided to use the funds for equipment in the rehabilitation facility. This makes the investment internally restricted, which means it will need to be disclosed, as per Section 4400, paragraph 26 (c):

> *"The following should be disclosed:*
>
> *(a) the amounts of deferred contributions attributable to each major category of external restrictions with a description of the restrictions;*
>
> *(b) the amount of net assets subject to external restrictions requiring that they be maintained permanently as endowments; and*
>
> *(c) the amount of net assets subject to internal restrictions and, separately, external restrictions other than those in (b) above."*

For Assessment Opportunity #1 (Financial Reporting), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss the accounting treatment of the grant and the donation.

Competent – The candidate discusses the accounting treatment of the grant and the donation.

Competent with distinction – The candidate thoroughly discusses the accounting treatment of the grant and the donation.

Assessment Opportunity #2 (Breadth Opportunity)

The candidate discusses the investment options for the donation.

The candidate demonstrates competence in Finance.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
5.2.2	Evaluates the entity's investment portfolio	**B**

CPA Map Enabling Competencies:
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.1.3 Demonstrates skepticism, objectivity, due care and persistence when identifying issues
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

The Centre will need access to the funds when they are needed in September 2025 for the rehabilitation facility. As it is now September 2023, the Centre has two years in which to invest the funds. Tamar also hopes the investment income earned by September 2025 will cover the first-year budgeted marketing costs of $70,000.

In order to cover this $70,000, the investment would need to grow to at least $570,000 in two years. Assuming that the interest is compounding yearly (which might be the case for some of the investment options, but not all), a $70,000 growth with a $500,000 initial investment would mean an average annual return of 6.77% (RATE given N = 2, PV = 500,000, FV = 570,000) in order to earn enough to cover the first year of budgeted marketing costs by September 2025.

Option 1 – Guaranteed Investment Certificate (GIC)

This option would return $595,508 after three years if compounded yearly (FV given RATE = 6%, N = 3, PV = 500,000), using a return rate of 6%. This would be a very safe option for protecting the balance invested and the return is guaranteed; however, the funds will be locked in for three years. It is now September 2023, and the rehabilitation facility is set to open in September 2025, but there is no flexibility to remove the funds until 2026. This will not likely be a feasible option if the $500,000 and the interest on it will be required in the first year of operations of the rehabilitation facility. This investment would be a low-risk option overall but does not meet the time frame. It also would not earn the annual return of 6.77% required to fund the marketing costs of $70,000 by September 2025.

Option 2 – Actively Managed Equity Mutual Funds

This option could potentially return $572,450 after two years (FV given RATE = 7%, N = 2, PV = 500,000), using a return rate of 7% (10% return - 3% management fees). The biggest risk with equity funds would be preservation of the capital. While it returned 10% historically, there is a risk that the market will be down when you need the funds, in which case you would be selling at a loss, and may not even recover your initial investment. The other downside to this option is the large management fee of 3%. This option produced a net return of 7% in the past two years. This would be a higher risk option, but does meet the time frame and the desired rate of return to cover the marketing costs of $70,000 by September 2025, assuming that the funds perform as they have in the past few years, which is not a guarantee.

Option 3 – Savings Account

This option could return $546,013 after two years (FV given RATE = 4.5%, N = 2, PV = 500,000). This is a low-risk option since the capital is guaranteed; however, it is also offering the lowest rate. It offers the flexibility to withdraw at any time, so the funds will be available when the rehabilitation facility opens. This option also involves some risk, as the rate is variable. If the prime rate fluctuates, so will the returns. The prime rate would have to increase to 8.77% for this option to provide enough funds to cover the budgeted marketing costs (8.77% - 2.00% = 6.77% expected). As with GICs, it would not meet the return required to finance the first year of budgeted marketing costs by September 2025, with the current prime rate.

Option 4 – Self-directed Investment Strategy

This option could potentially return $605,000 after two years (FV given RATE = 10%, N = 2, PV = 500,000). One of the main advantages to this option would be the elimination of costly management fees, such as the 3% management fee that comes with the actively managed equity mutual funds. It also gives the Centre complete control over the investment decisions, so you would be able to decide how much risk you are willing to take. This option would also meet your requirement for your return of 6.77%, if you are able to produce a return similar to that of your friend. Similar to the equity funds, you could sell your investments when you need the funds, but there is a risk that they may be worth less at that time.

The downside to this is that you may not be experienced enough to make important investment decisions. It would more than likely take you a lot of time to do your research and become financially versed enough to be able to manage your own investments. For example, knowing how to properly diversify a portfolio and knowing when to make a trade requires an expertise in finance. A common mistake with managing your own investments is over-trading. For example, if the markets are down, people often sell, out of fear of losing even more money, when that might not be the best decision to make. It would also be time-consuming monitoring the investments. While you would not have costly management fees, these fees are paid to have a professional manage the funds and monitor the risks for you. While this might initially seem like the most attractive option, it has many cons, including the risk involved and the required expertise and time.

Recommendation

In order to have access to the funds when needed, and to best meet your required return to finance the marketing costs, I recommend that you choose Option 3, the savings account. While this option does not meet your requirement in terms of return, Options 2 and 4 involve too much risk, and using those options would mean risking losing the funds you need for the rehabilitation facility. Option 1 would be best, as its return is closer to your expectations, but the term does not allow you to have access to the funds in time. Before making a decision, it would be advisable to look for a GIC with a two-year term, to see how its return would compare to the savings account.

The board should also consider using some of those funds to finance the ambulance, instead of borrowing funds now for the ambulance. Funds could be borrowed in two years' time, when they are needed for the rehabilitation facility.

For Assessment Opportunity #2 (Finance), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to analyze the investment options.

Competent – The candidate analyzes the investment options.

Competent with distinction – The candidate thoroughly analyzes the investment options and provides a recommendation.

Assessment Opportunity #3 (Breadth Opportunity)

The candidate analyzes the financing options for the ambulance.

The candidate demonstrates competence in Finance.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core
5.2.3	Evaluates sources of financing	B

CPA Map Enabling Competencies:
5.1.1 Applies general business knowledge to enhance work performed
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.1.3 Demonstrates skepticism, objectivity, due care and persistence when identifying issues
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Option 1 – Three-year Freemont County Bank Loan

The main disadvantage to this option is that the payments will be above the $60,000 threshold over which board approval is required. The principal payments alone are $60,000 per year ($5,000 × 12 months), and this amount does not include interest. This option, if pursued, will need the board's approval to proceed.

The interest rate is prime plus 3%. Variable interest rates can be risky if there is a big increase in the prime rate. At the current prime rate, the interest rate of this loan would be lower, at 9.5% (6.5% + 3%), compared to the 14.4% calculated below for Option 2.

The main advantage of this option, even though it is over the maximum amount allowed without requiring board approval, is that the loan will be paid off more quickly than with Option 2, which offers a longer term (five years). This will free up funds after three years, to be spent on other areas of the Centre. It will also improve the balance sheet to have less debt by paying off the balance sooner.

In addition, the Centre will have a cash inflow in ten years when they replace the ambulance, as they can sell it at that time. We expect that it will have a residual value since it has a useful life of 14 years. However, it requires the highest monthly payment for the next three years, at $5,000 plus interest, which could put a strain on the Centre's cash flows and increase the risk of default.

This loan is only secured by the assets financed, which is better than having to provide security over all of the Centre's assets, which the Nova Scotia International Bank loan requires.

Option 2 – Five-year Nova Scotia International Bank Loan

This loan seems attractive as the annual payments are below the amount for which board approval is required, at $49,200 annually ($4,100 × 12 months).

With a fixed rate, the payments are known, which makes it easier to plan cash flows.

We need to determine the interest rate implied in this option, so that we can compare it to the first option. The implied monthly interest rate of this loan is 1.13% (RATE given N = 60, PMT = 4,100, PV = 180,000, TYPE = 1[beginning of period]), which is 14.4% annually $((1 + 1.13\%)^{(12)} - 1)$. This is a high interest rate and, even if the prime rate were to increase, it is unlikely to increase enough for Option 1 to be close to 14.4%.

The loan in this option is secured by all of the Centre's assets. While the risk of default is low, it seems unreasonable that the bank would need a security over all of the assets. This increases the risk because, in the event that the Centre could not make a payment, it would be at risk of losing more assets than just the ambulance and the equipment that comes with it.

With this option, the Centre will carry the debt on the balance sheet longer than with Option 1, but it generally makes sense to finance assets over a period that is closer to their useful lives, which makes this option better than Option 1 from that perspective. As with Option 1, the Centre can expect a cash inflow in ten years from the sale of the ambulance, based on the residual value at that time.

Option 3 – Lease the Ambulance and Equipment

The main advantage of this option is that it will have the lowest monthly cost, at $2,800 a month, or $33,600 per year. Therefore, it is the best option from a yearly cash flow perspective.

The ambulance must be returned in five years, but the Centre was planning to keep it for 10 years. If you choose this option, the Centre will have to make a similar financing decision in five years instead of 10. Assuming that inflation affects this type of asset, the lease payments could increase substantially after five years. Even if we assume that another lease is signed with the same terms in five years, the monthly implicit interest rate would be 1.20% (RATE given N = 120, PMT = 2,800, PV = 180,000, TYPE = 1[beginning of period]), which is 15.3% annually $((1 + 1.20\%)^{(12)} - 1)$. This is slightly higher than Option 2, but it assumes the same monthly payments for the second term of the lease, which is unlikely. An increase in the monthly payments would be expected. In addition, if the Centre rents the ambulance, it will not have access to its residual value after ten years, as it would under Options 1 and 2.

The main advantage to this option is that, even though it will be more costly, the Centre will always have the latest and most modern ambulance and equipment. This fits nicely with the Centre's vision of staying abreast of medical and technological breakthroughs.

This also aligns with the Centre's long-term vision of helping developing countries with their medical equipment. At the end of the lease, the ambulance will only be five years old and will be sold at an affordable price to a developing country in need of this equipment. If the Centre were to purchase its own ambulance, it would not be cost-efficient to sell it to a developing country at an affordable price, and the Centre would not be ready to sell it after five years.

Recommendation

I recommend going with Option 1, the three-year Freemont County Bank loan, even though this option will require the board's approval as it will exceed the amount for which board approval is required. It is the option with the least risk and provides the lower interest rate of the two loan options, and a lower interest rate when compared to the implicit interest rate in the lease as well. While it would be nice to have a new ambulance every five years, this is not practical or advantageous from a cash flow perspective.

As mentioned above, it is also an option to use the donation funds to purchase the ambulance, and borrow funds in two years' time, when they are needed for the rehabilitation facility. This option should be considered by the board.

For Assessment Opportunity #3 (Finance), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to analyze the financing options.

Competent – The candidate analyzes the financing options and provides a recommendation.

Competent with distinction – The candidate thoroughly analyzes the financing options and provides a recommendation.

Assessment Opportunity #4 (Breadth Opportunity)

The candidate discusses the control weaknesses identified, and provides recommendations.

The candidate demonstrates competence in Audit and Assurance.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
4.1.1	Assesses the entity's risk assessment processes	A
4.1.2	Evaluates the information system, including the related processes, using knowledge of data requirements and risk exposures	B

CPA Map Enabling Competencies:

2.2.1 Assists in identifying and monitoring risks within areas of work responsibility
2.2.2 Recognizes the importance of internal controls within areas of work responsibility
5.1.3 Develops and uses knowledge of the organization, industry and stakeholders
5.3.1 Assists in identifying opportunities for process, product and service improvements related to work functions
6.1.1 Identifies and articulates issues within areas of work responsibility
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions
6.3.2 Articulates limitations to recommendations

After reviewing the various controls in the accounting department at the Centre, I have summarized my findings below.

Bank Reconciliations

Weakness: Bank reconciliations are prepared by Yan and not reviewed by Neesha unless there is a problem.

Implication: There could be errors in the bank reconciliation that would go undetected, making the bank balance and financial statements incorrect. There could also be old outstanding items that have not cleared the bank and that should be reversed.

Recommendation: Neesha should start reviewing the bank reconciliations immediately, and they should be reviewed every month. This should include reviewing the bank reconciliation and bank statement for large or unusual items. She should also leave evidence of her review so that the auditors can test this control.

Segregation of Duties

Weakness: Yan prepares the bank reconciliations, enters all of the supplier invoices, and processes payments.

Implication: Performing all of these duties provides opportunities for fraud and misappropriation of assets. For instance, Yan could pay himself and conceal those payments, since bank reconciliations are not reviewed, payments are not required to be supported by invoices, and no one is reviewing the cheques issued.

Recommendation: The accounts payable function should be done by Neesha if she has time, or if it is within your budget, by hiring a separate, part-time person for the accounts payable function. In small departments or organizations, where it is not feasible to divide the work into two roles, compensating controls can be implemented. For example, you could implement the recommendation above to have Neesha review Yan's work. More oversight is needed at all levels. Due to the limited segregation of duties in a small organization, it may be possible to involve Tamar in some of the reviews and approvals.

Invoice Account Coding

Weakness: Yan determines the account coding for department costs instead of the managers.

Implication: This could result in errors in the financial statements, as Yan would not always know the appropriate account classification, whether or not he has the invoice available to him when coding the expense. This results in inaccurate financial statements and is frustrating for the managers, who need to ask Yan to reallocate several items to the appropriate account. This can also result in poor decision-making, as comparisons of the actual results to budget are based on inaccurate information.

Recommendation: Department managers should code their invoices before they are sent to Yan for payment. They would know best what the item was purchased for, and can better allocate the expenses to the right accounts. Yan could then review the account coding for accuracy and reasonableness when he posts the expenses, and follow up on anything unusual with the department manager or Neesha.

Bi-weekly Supplier Payments

Weakness: Yan pays all suppliers every two weeks, and Neesha only asks Yan if all is good with the payments before signing off on them.

Implication: This creates the opportunity for errors or fraud as no one is reviewing the detailed payments. Under the current process, only the manager and Yan review the invoices. Managers and/or Yan could be making unauthorized or personal purchases.

Recommendation: Neesha, CPA, or the new CFO should authorize all payments, and review the amounts against the supporting documentation, such as the invoices that are being paid and evidence of receipt of the goods or services (e.g., packing slips, receiving reports, etc.), before authorizing the payments. This will ensure accuracy in the financial reporting as well as ensuring that the Centre's funds are being spent wisely. The reviewer should also leave evidence of their review, and approval of the invoices or statements.

Lack of Review of Neesha's Work

Weakness: Neesha is performing a lot of duties, including some things that the CFO would normally perform, and no one is reviewing her work.

Implication: Even though Neesha may be good at her job, there could still be errors, resulting in a misstatement in the financial statements or the reports to the Ministry. Some of Neesha's current duties are normally performed by someone more qualified than her, so it is possible that she does not have the skill set necessary to correctly perform some of these tasks. In particular, the Ministry reporting could have errors, as she has already asked for help with the accounting treatment of the grant and the donation.

Recommendation: Tamar, CPA, or the new CFO should review Neesha's work, effective immediately, including a review and sign-off of the payroll. They should also review the financial information for the first quarter and other reporting documents, to check for errors and/or fraud. When the new CFO is hired, they should take over the more difficult tasks, such as Ministry reporting and managing the departments, and they should continue to review Neesha's work. In addition, Yan could manage the payroll process, or if it is within your budget, you could hire a separate part-time person to manage it.

Time Sheet Approval

Weakness: Payroll is approved by Neesha only after a quick glance at the timesheets, to make sure they look reasonable.

Implication: With the current process, it is difficult for Neesha to know if the timesheets provided by staff are reasonable or correct. There is an opportunity for staff to include extra hours and, in particular, extra overtime hours. This would result in extra costs for the Centre, and employees being paid for more than they worked. This will negatively impact the Centre's bottom line.

Recommendation: The department managers who schedule their workers should approve the timesheets. They will know if the hours are accurate. In addition, the Centre already uses a program called "Scheduling Plus" to track all the hours. This program should be integrated with the accounting system for payroll, if possible. Alternatively, this system can be used instead of timesheets, or used in conjunction with the timesheets.

This is the most accurate source of the hours worked by employees because it is where all scheduling and last-minute changes take place. Neesha could at least compare the hours paid to the hours worked, as per the Scheduling Plus system.

Time Sheet Approval Timing

Weakness: Time sheets are sent to Neesha for approval on the day that payroll is processed.

Implication: The time period is too short to allow a proper review before payroll is processed. Even if Neesha had the department manager's approval or additional support from Scheduling Plus, the process is too rushed. She is less likely to catch errors, such as underpaying or overpaying employees, and errors in financial reporting.

Recommendation: The Centre should allow adequate time between the submission of timesheets from the departments and the processing of payroll. A period of a few days would provide Neesha with enough time to prepare payroll and proceed with the required verifications, which would decrease the risk of errors.

Credit Card Purchases

Weakness: Department managers are not required to submit a receipt for credit card purchases of $1,000 or less.

Implication: There is ample opportunity for department managers to purchase personal items or items that are not necessary to the department. In addition, not having receipts or invoices to support all purchases is not good practice for the business. This could result in misappropriation of assets and/or overspending in the departments. This could also result in missing or incorrect HST rebates. Yan is also coding the costs based on the vendor's name, which could lead to incorrect account classifications, which seems to have been the case, since the managers have told Neesha that they often have to ask Yan to reallocate several items to the appropriate account.

Recommendation: Effective immediately, a supporting receipt should be required for all purchases, regardless of the amount, and Yan should be reviewing the receipts prior to approving the expenses.

Common Login

Weakness: Neesha and Yan share a common login to the accounting system.

Implication: By sharing a common login, it is not possible to trace who entered the transactions in the system. If there are errors or inconsistencies in the system and in the financial statements, it will be difficult to determine who is responsible for them. It also creates an opportunity to conceal fraud, as each user does not have a unique password that identifies them. It also means that Yan might have access to confidential information, or to areas of the system that he should not have access to, such as payroll, where he could potentially alter pay rates. Both Yan and Neesha have the opportunity to make unauthorized changes that could go undetected.

Recommendation: Even though Neesha and Yan currently perform each other's duties, they should still have unique separate login credentials for the accounting system. This ensures a clear audit trail in terms of who posted a particular transaction. Yan's access should be limited only to the areas he works in.

For Assessment Opportunity #4 (Audit and Assurance), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate identifies some of the control weaknesses and provides some recommendations for improvements.

Competent – The candidate discusses some of the control weaknesses and provides recommendations for improvements.

Competent with distinction – The candidate discusses several of the control weaknesses and provides recommendations for improvements.

Assessment Opportunity #5 (Depth and Breadth Opportunity)
The candidate allocates the common costs to the departments for the first quarter.
The candidate demonstrates competence in Management Accounting.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
3.3.1	Evaluates cost classifications and costing methods for management of ongoing operations	**A**

CPA Map Enabling Competencies:
5.1.2 Recognizes the interrelationships among departmental and functional areas within the organization
5.1.3 Develops and uses knowledge of the organization, industry and stakeholders
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems

Allocating the common costs based on the departments' proportionate share of payroll is not a fair way to allocate the costs, as it does not represent their usage of the resources. For example, the family health department would be charged 33% of the cost of the meals based on their payroll costs being 33% of the total payroll costs of the four departments ($245,000 ÷ ($230,000 + $170,000 + $245,000 + $105,000)), but no meals were delivered to their patients.

You have summarized data for me, which can be used to allocate the costs in a manner that better represents each department's usage of the various resources. I have identified the driver for each of the common costs and, using the data you provided, I was able to allocate them in a way that is more representative of the departments' usage.

The following table identifies a cost driver and a rate for each of the cost centres, based on their total costs and activity level.

Cost Centre	Total to Allocate	Cost Driver	Activity Level	Rate
IT Support Desk (Note 1)	$14,250	IT support hours	95	$150 per hour
Cleaning (Note 2)	$36,432	Hours spent cleaning	2,024	$18 per hour
Kitchen	$32,715	Meals delivered to patients	3,635	$9 per meal

Note 1: The total number of IT support tickets of 50 (which translates into a cost of $285 per support ticket: $14,250 ÷ 50 tickets) was not used, as this would not be a fair way to allocate the costs, because the average time on support tickets varied a lot between departments. A fairer approach is the total hours spent on support tickets per department, which totals 95 (5 × 7 + 10 × 2 + 20 × 1.25 + 15 × 1).

Note 2: The total square footage cleaned was not used, as some departments are cleaned more often and take a lot longer to clean. Therefore, the total cleaning hours would best represent the departments' share of the costs. A total of 2,024 cleaning hours were needed in the first quarter (5 × 2 + 1 × 1.5 + 2 × 1.5 + 3 × 2.5) × 92 days, for a rounded cost of $18 per hour.

We can now apply the rates calculated above to each department, based on their usage of the various services.

Cost Centre	Urgent Care	Inpatient	Family Health	Long-term Care	Total
IT Support Desk, at $150 per hour	$5,250 ($150 × 5 × 7)	$3,000 ($150 × 10 × 2)	$3,750 ($150 × 20 × 1.25)	$2,250 ($150 × 15 × 1)	$14,250
Cleaning, at $18.00 per hour	$16,560 ($18 × 5 × 2 × 92)	$2,484 ($18 × 1 × 1.5 × 92)	$4,968 ($18 × 2 × 1.5 × 92)	$12,420 ($18 × 3 × 2.5 × 92)	$36,432
Kitchen, at $9 per meal	$2,655 ($9 × 295)	$10,890 ($9 × 1,210)	$0 ($9 × 0)	$19,170 ($9 × 2,130)	$32,715
Total	$24,465	$16,374	$8,718	$33,840	$83,397

Using the numbers above would be the best way to allocate the first quarter's shared costs to the departments.

For Assessment Opportunity #5 (Management Accounting), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to allocate the common costs to the departments.

Competent – The candidate allocates the common costs to the departments.

Competent with distinction – The candidate thoroughly allocates the common costs to the departments.

Assessment Opportunity #6 (Breadth Opportunity)

The candidate recommends KPIs to measure the urgent care and family health departments' performance, as well as actions to improve these two departments' performance on those KPIs.

The candidate demonstrates competence in Strategy and Governance.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core
2.3.1	Evaluates the entity's strategic objectives and related performance measures	B

CPA Map Enabling Competencies:
5.1.2 Recognizes the interrelationships among departmental and functional areas within the organization
5.1.3 Develops and uses knowledge of the organization, industry and stakeholders
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Key performance indicators (KPIs) are measures of activities or elements that have been identified as key or critical success factors (KSFs). KPIs are developed alongside KSFs that have been identified as key to successful implementation of the strategic objectives of an organization. The KSFs will identify the critical behavior and outcomes, and the KPIs will provide the metrics by which to measure the progress. KPIs should be SMART (specific, measurable, attainable, realistic, and timely).

The Centre's mission is to provide quality health care using highly-skilled employees. Its vision is to provide quality and compassionate care while staying abreast of medical and technological breakthroughs. Based on your mission and using the data you provided, we recommend some of the following KPIs to be used in the urgent care and family health departments, as well as actions to improve their performance.

Non-financial KPIs

Wait time

The average number of hours each patient waits should be used as a KPI. The urgent care wait time is currently eight hours, and the family health wait time is one hour. As part of creating a positive experience for patients and providing quality and compassionate care, both departments could set goals to reduce patient wait time. This could be achieved through more efficient scheduling of staff, or appointments for the family health department. The wait time should be reduced but without compromising patient care during their visit.

Patient experience

To determine whether patients are receiving compassionate care and having positive experiences, you could distribute surveys for them to complete after their visit, where they rate the service received and provide comments. These could be on paper or online. The average rating received for the period would be used as a KPI. Patients could remain anonymous but give both comments and recommendations on how to improve their visit and their experience. Staff such as the doctors, nurses, and admin staff could also be evaluated, based on the feedback gained from these surveys. To improve performance, you could identify specific areas of concern based on this feedback and implement changes to directly address those issues and provide staff with training and education in the specific areas where they were rated low.

Number of training hours

Based on your mission to provide quality health care using highly-skilled employees, you should ensure that the staff of both departments keep up-to-date on all training. The urgent care department did not have any training hours in the first quarter while the family health department had 40 hours of training. There should be a minimum number of mandatory training hours each quarter for all staff, and the number of hours spent on training in the period would be used as a KPI. The nature of this training would be dependent on the job role and the needs of the department. To improve performance, each department should have an allocated budget for training, to ensure that all staff are up-to-date on any changes in the field. This will help them stay abreast of changes in the medical and technological fields.

Equipment

As part of the mission of keeping abreast of technological breakthroughs, each department will want to ensure that they have the latest equipment. As the Centre only opened recently, you would currently have the best available equipment; however, things change quickly. The urgent care and the family health departments each had two capital asset purchases in the first quarter. Although the number of capital assets purchased could be used as a KPI, the amount spent on specialized equipment might be a better KPI to use, if available. To improve performance, each department should ensure that it utilizes its budgeted capital spending to invest in the equipment and technology that will enhance its performance and allow it to meet its mission. Implementing a five-year capital spending plan would be a good start, and having the investments meet that plan would be a good KPI to have. There may also be a KPI for number of training hours connected to specialty equipment purchased. This would ensure that staff is trained on the equipment purchased, and that the equipment is used to its full potential.

Financial KPIs

To be able to achieve its mission and vision, the Centre needs to be financially healthy. Therefore, the following KPIs are recommended.

Overall department costs

Both departments and department managers should be evaluated, based on their ability to keep their various controllable costs at or below budget. Many of the revenues and costs are outside the manager’s control; however, the departments should ensure that they spend their budgets in needed areas, such as training/equipment, and try to decrease discretionary spending. All controllable cost categories of each department should be identified, and the percentage of costs over budget should be used as a KPI.

Payroll costs

As payroll is the biggest cost, these costs need to be controlled where possible. The following two KPIs could be used to monitor payroll costs.

Overtime
The number of overtime hours could be used as a KPI. Managers should try to reduce overtime hours as much as possible, so a comparison could be made between periods, with the objective of reducing the number of hours by a certain percentage after each period, until the overtime has reached a pre-established reasonable threshold. The urgent care department had 180 hours of overtime for the first quarter. This could be a result of being unable to predict demand for the urgent care department because the facility is new. In addition, as previously noted, employee timesheets are not currently reviewed by department managers.

To improve performance, department managers responsible for scheduling should be very aware of overtime hours, and should look at patient volume data since the facility opened, to try to predict demand for staff time going forward. They should be the ones approving overtime hours going forward, and they should try to keep these to a minimum. It is normal for a health care centre to have overtime hours; however, this is a huge cost to the Centre, as payroll is the biggest cost. Staff members who work a lot of overtime may be tired and stressed, and this can affect the quality of care provided to the patients.

Sick days
Departments should also closely monitor the number of sick days taken by employees. Similar to above, this increases the payroll costs due to likely having to pay overtime to replace the sick worker. The urgent care department had 50 sick days in the first quarter, which is a lot higher than the other departments. This raises the possibility that some employees may be using sick days when they are not actually sick. The number of sick days could be used as a KPI, with the goal of keeping it to a minimum. To improve performance, staff should require a doctor’s note if they are off for several consecutive days. In addition, you could consider awards/incentives for those with perfect or near-perfect attendance, to help ensure that sick days are used for their intended purpose.

For Assessment Opportunity #6 (Strategy & Governance), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to recommend some KPIs to measure the urgent care and family health departments' performance.

Competent – The candidate recommends some KPIs to measure the urgent care and family health departments' performance, and recommends actions to improve performance.

Competent with distinction – The candidate recommends several KPIs to measure the urgent care and family health departments' performance, and recommends actions to improve performance.

Case #3 **(Suggested time: 85 minutes)**

It is March 15, 2023. You, CPA, work in the accounting department of Paradise Resorts Inc. (Paradise), reporting to Cara Ooi. Paradise is a large private corporation that builds, owns, and operates rental resorts. Paradise recently adopted a more aggressive growth strategy by purchasing already operational resorts.

You and Cara meet with Paradise's operations manager, Bhavna Sood, who explains, "Paradise acquired 100% of the shares of The Winnington Chalets Inc. (Winnington) on February 1, 2023 (Appendix I).

"The chalets and visitors' centre were in poor condition. The previous owner-manager, Jakob, kept costs low for short-term profit rather than investing for the long term. Despite this, Winnington experienced losses for the last three years. I think Paradise will get to use those tax loss carryforwards this year! Our effective tax rate is 26.5%. Renovations are underway, and we still have $300,000 available for other potential upgrades (Appendix II).

"I met Winnington's staff recently. Can you please help Felix address the issues he's running into as the new restaurant manager (Appendix III)? I also had a discussion with other staff (Appendix IV). The bookkeeper's point about taxes worries me. Are we liable if the Canada Revenue Agency (CRA) discovers these things now? How far back can they look?

"The purchase agreement permits us to hire a new manager or to keep Jakob. What would you recommend and why? It might be difficult for Jakob to be managed since he has always made decisions unilaterally. We hope Winnington will operate independently, but Paradise should oversee the operations somehow. What do you suggest the governance structure be? As well, how can we ease the concerns of Winnington's staff, related to the acquisition?"

After the meeting, Cara asks you to draft a response to Bhavna. In addition to addressing Bhavna's tax concerns, Cara asks you to explain the tax implications of the acquisition of control. Winnington followed ASPE but will now report under IFRS for consolidation purposes. Cara would like you to explain the differences between ASPE and IFRS for property, plant, and equipment, taxes, and for its lease, and to ignore IFRS 1 for the purpose of this report. She provided you with Winnington's financial statements (Appendix V). Cara explains that Paradise's year end is March 31, and Winnington will need a review engagement for the two months of operations since the acquisition, which is new for Winnington. To help Winnington prepare, Cara suggests that you draft a list of review procedures the practitioner will likely perform on Winnington's income statement.

APPENDIX I
BACKGROUND INFORMATION ON WINNINGTON

Tourists frequent the area to visit wineries, cycle, and enjoy beautiful lakes for swimming in the summer and ice fishing in the winter.

Winnington owns land with 150 chalets. Chalet occupancy rates average 60% annually. The three-month summer season and the three-month winter season are the busiest, with each of these seasons accounting for 33% of total rental revenue. The current renovations, before the other potential upgrades, are expected to increase chalet rental revenue by 9%. The gross margin of the rental activities is 62%.

The visitors' centre contains the reception area, restaurant, and the indoor pool and hot tub.

APPENDIX II
POTENTIAL UPGRADES

We are considering the following upgrades, which should last 15 years. Please recommend which upgrade(s) we should pursue, ignoring taxes for now, given that our budget is limited. Winnington's hurdle rate is 10%.

Restaurant Patio

The restaurant currently offers indoor dining only, but a patio could be installed on the adjacent unused outdoor space for $75,000. Despite the fluctuating chalet occupancy rates, the restaurant's sales are steady year-round. The restaurant has a 15% gross margin. A patio would increase restaurant sales from May to September by 50%.

Outdoor Pool

Instead of a patio, an outdoor pool could be built in the unused outdoor space. This pool would cost $100,000 to build and increase summer rental revenue by 2%.

Café

The reception area has space to install a café, at a cost of $30,000. Annual profit would be $20,000 in Year 1, with annual increases of 15% and 25% in Years 2 and 3, respectively, and then would hold steady after that.

Wine-tasting Room

An old clubhouse could be repurposed into a wine-tasting room for $200,000. The tasting room would earn a profit of $75,000 annually, and would help visitors decide which local wineries to visit.

APPENDIX III
NOTES FROM MEETING WITH FELIX

Felix was promoted to restaurant manager last year when Jakob fired the previous manager for donating unsold food that was still consumable to a charity. Felix explained that the restaurant sales system collects the data listed below for each sale:

- Date
- Time
- Server name
- Table number
- Invoice number
- Category (e.g., appetizer, entrée, alcoholic beverage)
- Item (e.g., daily soup, fish and chips, coffee)
- Pre-tax amount
- Sales tax amount

Data from the last three years is available. Felix would like to know how to use the current data, and what other data could be useful to collect, to help him address the following issues:

- The schedule has always been based on how busy management thinks the restaurant will be, but this sometimes results in too few or too many servers. Felix doesn't have a sense of how many tables a server can reasonably handle, nor which servers are best.
- Weekly food orders to suppliers are based on previously set minimum inventory levels, but this sometimes results in food being thrown out because it has expired, whereas other menu items sell out. Felix wonders whether the menu should be changed to better reflect what customers want.
- There is often a wait list in the summer and winter months, especially on Fridays, which may be due to a coupon given to each guest upon check-in that is redeemable on Friday nights. Fridays are normally the restaurant's busiest night, even without the coupon.

APPENDIX IV
NOTES FROM BHAVNA'S DISCUSSION WITH STAFF

Staff	Comment
Receptionist	Is my job at risk?
Maintenance staff	Will there be changes to my job requirements? Will you offer training?
Bookkeeper	Jakob often put personal items through as "office expenses" in profitable years to reduce taxes. He also hired family members and paid them much more than market rates, which angered the staff. I didn't know what to do, who to tell, or if anything could be done about it.
Senior accountant	Will I have to learn to use Paradise's accounting software? Will we need to report to Paradise's Board of Directors? Winnington never had one.
Server	I'm glad you bought Winnington. Jakob didn't care much, and the work ethic around here isn't great. There aren't as many policies here as I'm used to.

APPENDIX V
EXCERPTS FROM WINNINGTON'S FINANCIAL STATEMENTS

Balance Sheet
As at December 31, 2022

Assets		
Current assets:		
Cash	$	93,000
Inventory (restaurant)		24,400
Prepaid expenses		8,000
Total current assets		125,400
Land		3,000,000
Plant and equipment (net)		10,675,000
Total assets	$	13,800,400
Liabilities		
Current liabilities:		
Accounts payable	$	62,000
Deferred revenue – deposits		429,000
Current portion of mortgage		369,400
Total current liabilities		860,400
Mortgage		6,047,000
Total liabilities		6,907,400
Shareholder's equity		
Common shares		100
Retained earnings		6,892,900
Total shareholder's equity		6,893,000
Total liabilities and shareholder's equity	$	13,800,400

APPENDIX V (CONTINUED)
EXCERPTS FROM WINNINGTON'S FINANCIAL STATEMENTS

Income Statement
For the year ended December 31, 2022

		Note
Revenue		
Rental revenue	$ 8,580,000	
Restaurant sales	936,000	
	9,516,000	
Operating expenses		
Advertising	469,000	
Bank charges and interest	6,000	
Depreciation	2,174,000	
Insurance	356,000	
Interest on mortgage	321,000	
Landscaping, gardening, and snow removal	350,000	
Office	605,900	
Lease	30,000	1
Professional fees	60,000	
Property tax	400,000	
Restaurant food, beverages, and supplies	374,400	
Repairs and maintenance	75,000	
Salaries and wages	2,468,000	
Telecommunications	571,000	
Utilities	1,326,000	
	9,586,300	
Loss before taxes	(70,300)	
Taxes recoverable	0	2
Net loss	$ (70,300)	

Notes:

1. This is related to a three-year operating lease for a boat used to transport guests across the lake to visit tourist sites. The lease cost is expensed as incurred.
2. Winnington uses the taxes payable method and has a tax rate of 12.2% due to the small business deduction. Non-capital loss carryforwards are as follows:
   - 2020: $0 (carried back)
   - 2021: $116,000
   - 2022: $142,000

MARKING GUIDE 3-3
THE WINNINGTON CHALETS INC. (WINNINGTON)
ASSESSMENT OPPORTUNITIES

To: Cara Ooi
From: CPA
Subject: The Winnington Chalets Inc.

Assessment Opportunity #1 (Breadth Opportunity)

The candidate determines which upgrades should be pursued, given the limited funds and space available.

The candidate demonstrates competence in Finance.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
5.3.1	Develops or evaluates capital budgeting processes and decisions [Capital rationing is Level C within this competency]	**B**
5.6.1	Evaluates the purchase, expansion, or sale of a business	**B**

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

I have chosen to use the profitability index (PI) to assess which upgrade(s) should be put forward, as it takes into account both the time value of money, and the size of the investment required for each option. We first need to calculate the present value (PV) of each upgrade, using Winnington's hurdle rate of 10%, and then calculate their PI. The upgrades should be selected in order of their PI, starting with the highest, the budget constraints, and the space constraints. There are other valid methods that could be used in order to assess which upgrade(s) should be put forward, including a net present value (NPV) calculation.

Restaurant Patio

A patio would increase restaurant sales from May to September by 50%.

Annual restaurant sales were $936,000 last year, and restaurant sales are steady year-round. The restaurant has a 15% gross margin.

Therefore, the annual increase in gross margin would be $29,250 ($936,000 × 5 months ÷ 12 months × 15% gross margin × 50% increase).

The PV of this increase over 15 years would therefore be $222,478, using the following inputs:
Discount rate: 10%
Number of periods: 15 years
Annual additional margin = $29,250
Type: End of period

Outdoor Pool

The outdoor pool would increase summer rental revenue by 2%.

Annual rental revenue is $8,580,000, with the summer accounting for 33% of this, so $2,831,400 ($8,580,000 × 33%). Renovations are expected to increase sales by 9%, meaning a 2% increase above and beyond that would be $2,831,400 × 1.09 × 2% = $61,725. This translates into an annual increased margin of $38,270, using the gross margin provided of 62% ($61,725 × 62%).

The PV of this increase over 15 years would therefore be $291,085, using the following inputs:
Discount rate: 10%
Number of periods: 15 years
Annual additional margin = $38,270
Type: End of period

Café

Annual profit is expected to be as follows:
Year 1: $20,000
Year 2: $23,000 ($20,000 × 1.15)
Year 3 and onwards: $28,750 ($23,000 × 1.25)

The PV of this project would be:

Item	Year 1	Year 2	Year 3 to 15
Annual profits	$20,000	$23,000	$28,750
Discount rate	10%	10%	10%
Number of periods	1	1	13
PV at beginning of the period	$18,182	$20,909	$204,221
PV at beginning of Year 1	$18,182	$19,008	$168,778

The PV of this increase over 15 years would therefore be $205,968 ($18,182 + $19,008 + $168,778).

Wine-tasting Room

The PV of the additional annual profit generated by the wine-tasting room over 15 years would be $570,456, using the following inputs:
Discount rate: 10%
Number of periods: 15 years
Annual additional margin = $75,000
Type: End of period

Profitability Index

When determining which projects to move ahead with when funds are limited, the PI is a useful tool for comparing the upgrades. The PI is calculated by taking the PV of the project and dividing it by its upfront capital requirements.

Upgrade	PI	Rank
Restaurant patio ($222,478 ÷ $75,000)	2.97	2
Outdoor pool ($291,085 ÷ $100,000)	2.91	3
Café ($205,968 ÷ $30,000)	6.87	1
Wine-tasting room ($570,456 ÷ $200,000)	2.85	4

Recommendation

Only the restaurant patio or the outdoor pool can be selected, not both, as there is only one outdoor spot available for this item. Not only does the restaurant patio provide a higher PI (marginally) but, given that the restaurant is sometimes at capacity with a wait list in the summer, having extra seating would certainly help keep customers more satisfied, knowing that they did ranot have a long wait time or have to go somewhere else.

While an outdoor swimming pool would be nice, there is already an indoor pool, and lakes, for swimming, so rental customers desiring to swim can certainly do so.

The café is a strong choice, given that it does not require a high upfront cost and earns a considerable return. We should, however, assess whether the café would cannibalize sales from the restaurant before we go ahead with the café.

The wine-tasting room has the lowest PI, despite having the highest present value. Financing to implement this option is $5,000 short (see table below). Given that Winnington resides in a wine region, a wine-tasting room seems like a good fit, and rental customers can sample the regional wines without travelling to another location, and therefore make it back to their lodgings safely after enjoying some wine. It may also open partnership opportunities with the local vineyards. I recommend using some cash on hand to fill in the gap, or attempting to increase the financing by the missing $5,000. It would be a shame to pass up on this upgrade.

Item	Investment Required	Declining Balance
Total to invest		$ 300,000
Café	$ 30,000	$ 270,000
Restaurant patio	$ 75,000	$ 195,000
Wine-tasting room	$ 200,000	$ (5,000)
Shortfall		$ (5,000)

As mentioned, an NPV analysis is another valid method for assessing which upgrade(s) to put forward and in this case the NPV of each upgrade would be calculated by taking the PV and subtracting the initial investment.

For Assessment Opportunity #1 (Finance), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to analyze the upgrades.

Competent – The candidate analyzes the upgrades and provides a recommendation.

Competent with distinction – The candidate thoroughly analyzes the upgrades and provides a recommendation.

Assessment Opportunity #2 (Depth and Breadth Opportunity)

The candidate discusses how the data collected in the information system could improve restaurant operations.

The candidate demonstrates competence in Management Accounting.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core
3.1.2	Documents and assesses business processes, systems and data requirements, and recommends improvements to meet information needs	B
3.2.1	Develops or evaluates data and information inputs for operational plans, budgets, and forecasts	A

CPA Map Enabling Competencies:
5.1.1 Applies general business knowledge to enhance work performed
5.3.1 Assists in identifying opportunities for process, product and service improvements related to work functions
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

The data available could definitely be analyzed in order to help improve operations. Three years of data provides a good foundation for performing analyses. The data would have to be cleaned first, ensuring that only relevant data is used, and that the data is complete and accurate. Below are some suggestions for what could be assessed.

Server Scheduling

<u>Existing data</u>

An analysis of the current data could be done to determine which time slots are the busiest and need more servers, and which are quietest and need fewer servers. The date and time fields could be sorted to group certain blocks of time (e.g., breakfast/lunch/dinner/evening or times in between, for each day of the week). Then the average sales amount could be determined for each time slot, using either the pre-tax or total amount. Alternatively, the number of meals could be calculated using the "category" field, counting the number of "entrees" ordered in the same blocks of time mentioned above. This would be a better indication of how busy each time slot is, since meals at night are often more expensive than breakfasts, for example, as they are usually pricier and include alcohol. This analysis would benefit from a seasonal grouping, as we know the resort is busier in winter and summer, and quieter in spring and fall.

Using the server's name, table number, and/or invoice number fields, in conjunction with the date and time fields, you could get a sense of how many tables a server can handle at any one time (historically), and how many tables are typically filled at specific times. This could help you determine how many servers you need for each spot on the schedule. Servers likely also know their limitations, and you could garner some of this information by simply talking to your servers. Given that they want to make money from tips, they may overestimate the number of tables they can handle, which may impact service quality. You may want to take their estimate and reduce it slightly.

Other helpful data

It would be helpful to know the number of guests at each table. This would help refine the estimate of how busy each time slot is, and what each server's capacity is, as some tables might not always be full. Felix could use the upcoming weeks' reservations to help build his servers' schedules.

Inventory Management

Existing data

The average number of times an item is purchased per week should be calculated using the data. Week-by-week trend analysis should be performed, to see if there are consistently more popular items that need to be ordered in greater amounts. This data is not perfect as it only tells you the customers' final orders; it does not tell you how much customers ordered that was not available because the restaurant had run out of that food item. Felix will have to slowly increase the amounts ordered, and keep comparing to sales of those items, to arrive at the new recommended order quantity. Seasonality should be factored into the analysis here too. Soup and dark beer may be very popular in the winter, for example, whereas garden salads and white wine may be more popular in the summer.

The above analysis will also help Felix identify which items he is purchasing too much of (comparing his inventory purchase list to the average weekly sales of the items using those ingredients).

Other helpful data

The menu item popularity analysis described above may also identify menu items that should be removed from the menu and potentially replaced with something else. The data collected does not help guide which items should be added to the menu, but Felix could initiate a customer feedback questionnaire, asking customers to identify items they would have liked to have seen on the menu. Any items that repeat frequently would be good candidates.

Servers could also be asked to write down, on a common list, the menu items ordered by customers that were not available due to ingredients running out. This list would be helpful, to complement the information on what customers ended up ordering, to know what items are popular, and for which you need to increase the inventory of ingredients.

Coupon

Existing data

Friday is the busiest night of the week, so providing guests upon check-in with a coupon redeemable on Friday nights is making the restaurant even busier, which is contributing to the length of the wait list. Coupons and other promotions are usually most effective when used to increase business at an otherwise quiet time. I recommend that the coupon be changed to offer a deal during a period that is identified as "quiet" (which can be identified using the data collected in the first analysis above). From there, the data can be monitored to see if the coupon is having the desired effect. This could be done by comparing the number of customers and amount of sales in periods where the coupon can be used to the same information before the timing of the coupon was changed. The coupon's negative impact on Friday nights should also be monitored, to make sure that the increase in sales at the new selected time is in fact greater than the decline of Friday night's sales.

Other helpful data

When collecting information on the sales, it would be useful to have information on whether a coupon was used. This would allow you to see if the coupon is attracting customers to the restaurant, and if it is worth distributing.

Server Performance

Existing data

The data could also be analyzed to determine well- and poorly-performing servers. A well-performing server would be able to regularly sell more (through upselling, being more efficient, serving more customers at the same time, etc.) than another server, during the same time slot/day of the week.

Other helpful data

A customer feedback questionnaire could also be used to gather data on customers' satisfaction with their server (if that is of interest). Servers who perform poorly may need additional training or other resources to help them improve. Incentives could be introduced to help stimulate desirable behaviours (e.g., employee of the month, with a small gift).

Other

Other helpful data

The customer feedback questionnaire was mentioned a few times above. This questionnaire could collect a lot of information that the sales system does not necessarily capture, such as comments on the décor, bathrooms, service, cleanliness, food quality, appropriateness of the drink list, etc. The link to the survey could be added to the receipt, and you could have a monthly draw, to encourage customers to fill out the survey. Online reviews could also be looked at to gather information on customer satisfaction.

Servers could also be asked to fill out an anonymous employment feedback questionnaire, to obtain information about workplace satisfaction and improvements that could be made on that front.

For Assessment Opportunity #2 (Management Accounting), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss some data analytics that could be performed, or additional data that could be collected, to improve the business operations.

Competent – The candidate discusses some data analytics that could be performed, and additional data that could be collected, to improve the business operations.

Competent with distinction – The candidate discusses several data analytics that could be performed, and additional data that could be collected, to improve the business operations.

Assessment Opportunity #3 (Breadth Opportunity)

The candidate discusses the Canada Revenue Agency (CRA)'s ability to reassess for the disallowed deductions, and the tax implications of the acquisition of control.

The candidate demonstrates competence in Taxation.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core
6.2.2	Advises on taxes payable for a corporation	**B**
6.4.1	Evaluates adherence to compliance requirements	**B**
6.6.3	Analyzes income tax implications of the purchase and sale of a CCPC [Acquisition of control is Level C within this competency]	**B**

CPA Map Enabling Competencies:
1.1.2 Recognizes situations that could compromise ethical behaviour and seeks guidance
1.1.3 Exhibits ethical behaviour by complying with laws and regulations, organizational policies, societal norms and personal ideals
1.1.4 Reports unethical behaviour to an appropriate organizational level or professional body
1.3.1 Maintains a skeptical mindset when performing assigned work
1.3.2 Recognizes bias, uncertainty and ambiguity in the information and assumptions that underlie assigned work
2.2.1 Assists in identifying and monitoring risks within areas of work responsibility
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Reassessments for Disallowed Deductions

The bookkeeper indicated that Jakob often put personal items through as “office expenses” in profitable years to reduce taxes. Currently, all we have is hearsay that this occurred. I recommend we do our own investigation on this matter, to see if there is any truth to the claims. The bookkeeper’s comments suggest that these payments were made specifically for the purpose of reducing income taxes, so if this is true, we can assume that the payments were deducted from income for tax purposes for the year. The deduction of personal/living expenses is disallowed by Section 18 of the Income Tax Act. If personal items were deducted, it would be considered tax evasion under Section 239 of the Income Tax Act, since purposely not reporting income, and inflating expenses, is tax evasion.

Remuneration to non-arm's length individuals is allowed if it is reasonable, but information gathered suggests that the amounts paid were much higher than market (similar staff were paid much less), which suggests that the amounts were not reasonable and would therefore be disallowed. The deductions for these amounts are disallowed, so if what Jakob reported is accurate, it would trigger additional taxes and interest. Winnington would be responsible for paying these.

Both of these deductions are examples of tax avoidance, and as noted, both amounts are specifically prohibited by the Income Tax Act from being deducted by the corporation. While it was not illegal to make such payments, it is illegal to claim them as business expenses.

This means that, in addition to the taxes and interest, there could also be fines, civil penalties, and potentially imprisonment for the person who made the intentional misstatement. The increase in taxes, and the interest owing on the late payment of these taxes, would be assessed to the corporation (Winnington), which Paradise now owns. Unless the purchase agreement says otherwise, Winnington would be responsible for paying these now, not the previous owner. In addition, if professional tax preparers were involved and were aware of these errors, they could be assessed with preparer penalties.

You asked how far back the CRA can look. Officially, the normal reassessment period is three years from the date of the notice of assessment for a CCPC. However, in years where there are no taxes payable (e.g., where there are losses), the three-year limit is generally not applicable unless a loss determination is undertaken. Regardless of this, however, if the corporation has made a misrepresentation because of neglect, carelessness, wilful default, or fraud in either filing the return or supplying information required by the Income Tax Act, the CRA may reassess any taxation year, even if it has passed these deadlines.

The staff mentioned that the previous owner claimed personal items as office expenses in years of profit, to help reduce the taxes owing. Winnington was in a loss position for 2019 and onwards, so it is possible that no personal items ran through the business in those years, suggesting that these errors only occurred in statute-barred years (2018 and earlier). There is not enough information to determine if the expensing of personal items was a result of neglect, carelessness, wilful default, or fraud. Further analysis should be performed to determine if this is likely, because it would mean that the CRA could reassess those older years.

The timing of the non-arm's length compensation payments in excess of fair value is unknown, and may have taken place in the last three years. I recommend we correct the past tax filings and notify the CRA, perhaps using a voluntary disclosure. It is possible that Paradise could also initiate legal action against the previous owner for any taxes, penalties, or interest applied against Winnington for the incorrect tax filings; however, this would be a matter to discuss with a lawyer.

Acquisition of Control

Paradise acquired control of Winnington on February 1, 2023. Immediately before the acquisition (end of day January 31, 2023), Winnington will have a deemed year end, and will be required to file a tax return for the one-month period from January 1, 2023, to January 31, 2023.

At this time, there is a requirement to recognize accrued or unrealized losses on depreciable property by claiming CCA on the excess of UCC over the fair market value (FMV).

There is an election to have a deemed disposition on any depreciable and/or non-depreciable property that have a recapture or capital gain. Electing to do so is useful if the entity has net capital losses that would otherwise expire.

For the non-capital losses to continue to be deductible afterwards, the business that generated the losses must be carried on (Winnington will continue to rent chalets), and must have a reasonable expectation of profit (Paradise is actively making improvements to Winnington's business and purchased it with the purpose of running it as a resort rental business, so profit is reasonably expected). In addition, the non-capital losses after acquisition can only be applied against income from the "same or similar" business. This is also the case, since Winnington will continue to offer the same service as before (resort/chalet rentals).

Bhavna seemed excited about the prospect of being able to claim Winnington's loss carryforwards in Paradise. This is not allowed. The losses stay within Winnington because it is a separate corporation. This could only be resolved by an amalgamation or wind-up, which is beyond the scope of this report.

Also, because of the deemed taxation year end, one "year" of the non-capital loss carryover period will be lost. In addition, if Winnington changes its taxation year end to March 31, to coincide with Paradise's year end in order to ease consolidation, another "year" of the non-capital loss carryover period will be lost. So, the $116,000 from 2021, which had a 19-year carryover period as at December 31, 2022, will have only 17 years left, and the $142,000, which had a 20-year carryover period as at December 31, 2022, will have only 18 years left as of March 31, 2023.

After acquisition, Winnington will have to use the taxable capital and adjusted aggregate investment income of its associated group to determine its eligibility for the small business deduction. Since Paradise is already taxed at the high rate, presumably due to its taxable capital exceeding $50 million, the small business deduction will likely no longer be available to Winnington either. Instead of a 12.2% effective tax rate, Winnington will be subject to a 26.5% effective tax rate, like Paradise.

For Assessment Opportunity #3 (Taxation), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss either the reassessments for disallowed deductions or the acquisition-of-control implications.

Competent – The candidate discusses the reassessments for disallowed deductions and the acquisition-of-control implications.

Competent with distinction – The candidate thoroughly discusses the reassessments for disallowed deductions and the acquisition-of-control implications.

Assessment Opportunity #4 (Breadth Opportunity)

The candidate discusses the governance issues, such as whether a new manager should be hired, what the governance structure should be, and how to ease the staff's concerns.

Candidate demonstrates competence in Strategy and Governance.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		Core
2.1.1	Evaluates the entity's governance structure (policies, processes, codes)	B
2.4.1	Analyzes key operational issues including the use of information assets and their alignment with strategy	B

CPA Map Enabling Competencies:
1.1.2 Recognizes situations that could compromise ethical behaviour and seeks guidance
5.1.1 Applies general business knowledge to enhance work performed
5.3.1 Assists in identifying opportunities for process, product and service improvements related to work functions
6.1.3 Demonstrates skepticism, objectivity, due care and persistence when identifying issues
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

New Manager versus Jakob

You asked whether Winnington should hire a new manager or keep the previous owner on staff in a managerial role. Keeping the previous owner on board for a limited time is often advantageous in an acquisition, as they have a lot of experience running the operations, which can help things go more smoothly, and can also help the current staff adjust more easily and feel comfortable, despite the many changes happening.

While that may be true, I fear there might be more harm than good done by keeping him on. Jakob seems to have different values than Paradise, as showcased by the rental units being in poor condition when acquired, and by his interest in keeping costs low for short-term profit rather than investing for the long term. For example, of the $9.6 million of operating expenses, only $75,000 was spent on repairs and maintenance last year. He also seems to have poor ethics, if the bookkeeper's claim that he purposefully incorrectly filed past tax returns for Winnington prove to be true. Other staff mentioned that he did not seem to care much, and that employee work ethic is not great as a result. Lastly, his judgment in firing a manager who was proactively finding a use for the unsold food is questionable.

Instead, I recommend a new manager be hired, someone with experience in resort/hotel management, and potentially relocating someone from another Paradise resort who has experience with the Paradise brand and norms.

Governance Structure

You mentioned that Jakob, as the previous owner-manager, used to be able to make decisions unilaterally. Now that Paradise is the owner and will want to be involved in the decision-making, it will likely no longer be appropriate for one person (Winnington's manager) to make all decisions, especially major ones, unilaterally. I recommend that a Board of Directors for Winnington be established, to protect the interests of Paradise and the shareholders. The decisions that can be made at various levels need to be determined and communicated through policies (e.g., capital spending over a certain threshold, which may need approval from the board and/or Paradise, and hiring practices and salary ranges, so that staff are hired based on merit and compensated fairly, as opposed to hiring family members).

In terms of ongoing monitoring, I recommend that Paradise has representation on the board, and that this board meets regularly, and often, in the first few years (e.g., monthly). This board member would report back to Paradise on any significant issues that arise. Paradise should also review Winnington's annual budgets, monthly financial reporting, including variance to budget, and the annual reviewed financial statements.

Staff Concerns

To help ease the transition with staff, it is important to be transparent, listen to their concerns, and attempt to address these concerns as best you can. You may wish to host some town halls, so that the staff can hear about how Winnington will be run, now that it is under the Paradise umbrella. The staff seem concerned about their job security, new job requirements, new systems, etc. Addressing these issues openly and in a timely way is critical. Given your plan to allow Winnington to run fairly autonomously and only step in when required, this would be an important thing to mention to the Winnington team.

Any new systems implemented, or other job requirement changes, should be accompanied by sufficient training and ongoing resources, to assist with those changes. Expectations on job performance should be made clear, along with any performance reviews that will happen and when. Consequences of negative and positive performance evaluations need to be communicated upfront.

Ethics

Given the issues with the prior owner, the tone at the top for ethical conduct (along with work ethic) may have been lacking. I recommend introducing a code of ethics and code of conduct, and providing employee training on these new elements. The bookkeeper mentioned that they did not know what to do when they learned of the previous owner's incorrect tax dealings. While there was nobody above them at the time, any new management would be overseen by Paradise. You could introduce a whistle-blowing policy that allows people to come forward with information they have, anonymously if they wish, and without negative consequences to themselves.

For Assessment Opportunity #4 (Strategy and Governance), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss some of the governance issues.

Competent – The candidate discusses some of the governance issues.

Competent with distinction – The candidate discusses several of the governance issues.

Assessment Opportunity #5 (Depth and Breadth Opportunity)

The candidate explains the differences between ASPE and IFRS for property, plant, and equipment, taxes, and for its lease.

The candidate demonstrates competence in Financial Reporting.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
1.2.1	Develops or evaluates appropriate accounting policies and procedures	A
1.2.2	Evaluates treatment for routine transactions	A

CPA Map Enabling Competencies:
6.1.1 Identifies and articulates issues within areas of work responsibility
6.2.1 Maintains an objective and questioning mindset to avoid biased analyses
6.2.4 Completes thorough quantitative and qualitative analyses to identify and evaluate potentially viable alternatives
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions
6.3.3 Applies decision criteria to choose among viable alternatives

Property, Plant, and Equipment

Under ASPE, Winnington's PP&E is recorded at historical cost, depreciated, and subject to impairment testing. Under IFRS, there is a choice to use historical cost or the revaluation model for each particular class of assets, as per paragraph 29 of IAS 16, Property, plant and equipment: *"An entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment."* The revaluation model would mean that the asset is revalued to fair value (FV) at sufficiently regular intervals, with depreciation taken between revaluations, as per paragraph 31: *"After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period."*

Therefore, if Winnington expects its land to continue to increase in value, it may wish to use the revaluation model for land, so that the balance sheet more accurately represents the land's worth. Increases in an asset's value would flow through other comprehensive income (OCI) (revaluation surplus), and any decreases would flow through OCI to the extent that it was previously increased for that asset, and otherwise flow through profit and loss (P&L), as per paragraph 39 of IAS 16: *"If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss."*

Since Winnington's assets and liabilities at acquisition will be recorded at their fair values in the consolidated statements regardless of the model chosen, it is only the measurement subsequent to acquisition that will be affected.

That said, because all assets of the same type need to be treated the same way, and Winnington's financial statements will be consolidated with Paradise, it would make the most sense for Winnington to use the same model for each type of asset as Paradise uses.

Taxes

Winnington uses the taxes payable method to record its income tax expense, which is perfectly acceptable under ASPE, since under ASPE, entities have a choice to use either the taxes payable method or the future (deferred) income taxes method, as per paragraph 03 of Section 3465:

> *"An enterprise shall make an accounting policy choice to account for income taxes using either:*
>
> *(a) the taxes payable method; or*
>
> *(b) the future income taxes method."*

IFRS does not offer such a choice. Winnington will be required to use the deferred income taxes method and account for the temporary tax differences. For example, the difference between the book value and the UCC of the property, plant, and equipment would create a deferred income tax liability. As per paragraph 15 of IAS 12:

> *"Taxable temporary differences*
>
> *A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:*
>
> *(a) the initial recognition of goodwill; or*
>
> *(b) the initial recognition of an asset or liability in a transaction which:*
>
> *(i) is not a business combination; and*
>
> *(ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)."*

<u>Non-capital loss carryovers</u>

The non-capital loss carryovers represent a future tax deduction that is available, and therefore a deferred income tax (DIT) asset. As per paragraph 24 of IAS 12:

> *"A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:*
>
> *(a) is not a business combination; and*

(b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).”

Year	Loss Carryover
2021	$116,000
2022	142,000
	$258,000
Future tax rate of Winnington	26.5%
DIT asset	$68,370

Given the purchase of this subsidiary (which would not have taken place if Paradise did not think it could be profitable), the renovations and planned upgrades, it seems reasonable to believe that it is probable there will be a taxable profit against which the deductible temporary differences can be utilized. The loss carryovers still have many years before expiry. They will likely be usable. As per paragraph 27 of IAS 12:

“Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.”

I have used a tax rate of 26.5% to calculate deferred income taxes. After the acquisition, Winnington would no longer be considered a CCPC, and the small business deduction that created its lower tax rate of 12.2% is no longer available. Winnington will instead be subject to a tax rate similar to Paradise’s (26.5%).

Leases

Winnington currently has an operating lease for a boat, used to carry guests across the lake. The accounting rules differ between ASPE and IFRS on leases. Under ASPE, from the lessee’s perspective, the lease is classified based on whether substantially all of the risks and rewards are transferred from the lessor to the lessee, while such a distinction is not made in IFRS from the lessee’s perspective.

Under ASPE, there are two categories of leases: a capital lease and an operating lease. Paragraph 5 of ASPE 3065 – Leases, mentions that “… *a lease that transfers substantially all of the benefits and risks of ownership to the lessee is in substance an acquisition of an asset and an incurrence of an obligation by the lessee ...”* Such a lease would be categorized as a capital lease. According to ASPE 3065, from the point of view of a lessee, a lease normally transfers substantially all of the benefits and risks of ownership to the lessee when, at the inception of the lease, one or more of the following conditions are present:

"(a) There is reasonable assurance that the lessee will obtain ownership of the leased property by the end of the lease term. Reasonable assurance that the lessee will obtain ownership of the leased property is present when the terms of the lease result in ownership being transferred to the lessee by the end of the lease term or when the lease provides for a bargain purchase option.

(b) The lease term is of such a duration that the lessee will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span. Although the lease term may not be equal to the economic life of the leased property in terms of years, the lessee is normally expected to receive substantially all of the economic benefits to be derived from the leased property when the lease term is equal to a major portion (usually 75 percent or more) of the economic life of the leased property. This is due to the fact that new equipment, reflecting later technology and in prime condition, may be assumed to be more efficient than old equipment that has been subject to obsolescence and wear.

(c) The lessor is assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement. This condition exists if the present value, at the beginning of the lease term, of the minimum lease payments, excluding any portion thereof relating to executory costs, is equal to substantially all (usually 90 percent or more) of the fair value of the leased property, at the inception of the lease. In determining the present value, the discount rate used by the lessee is the lower of the lessee's rate for incremental borrowing and the interest rate implicit in the lease, if known."

In Winnington's case, since the lease has been accounted for as an operating lease, it appears that none of the criteria above were met.

However, under IFRS, leases are accounted for following the guidance included in IFRS 16 – Leases. The lessee may elect not to apply this standard for:

"(a) short-term leases; and
(b) leases for which the underlying asset is of low value (as described in paragraphs B3–B8)."

In Winnington's case, the lease is for three years, for a value of $30,000, so those exceptions would not apply, and the guidance in IFRS 16 would have to be followed. Under IFRS 16, Winnington would have to recognize a right-of-use asset at cost, as well as a lease liability at the present value of the lease payments that are not paid at that date, which are discounted.

Converting to IFRS would therefore require Winnington to account for its lease very differently than it currently does. The lease payments would no longer be expensed as incurred. Instead, the lease would be capitalized, with a corresponding liability, as explained above. The asset would then be depreciated, and in most cases, the net income statement effect is minimal.

For Assessment Opportunity #5 (Financial Reporting), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate attempts to discuss some of the differences between ASPE and IFRS.

Competent – The candidate discusses some of the differences between ASPE and IFRS.

Competent with distinction – The candidate discusses several of the differences between ASPE and IFRS.

Assessment Opportunity #6 (Breadth Opportunity)

The candidate provides review procedures that will likely be performed on Winnington's income statement.

The candidate demonstrates competence in Audit and Assurance.

CPA Map Technical Competencies (based on the 2022 CPA Competency Map):		**Core**
4.3.6	Develops appropriate procedures, including Audit Data Analytics (ADA), based on the identified risk of material misstatement	**B**

CPA Map Enabling Competencies:
5.1.3 Develops and uses knowledge of the organization, industry and stakeholders
5.2.1 Uses existing knowledge in new or different ways
6.1.1 Identifies and articulates issues within areas of work responsibility
6.1.2 Uses qualitative and quantitative techniques to clarify the nature of problems
6.3.1 Uses evidence and judgment to recommend and justify solutions or conclusions

Assuming that the nature of the revenue and expenses for the period from February 1 to March 31, 2023, are similar to those in the December 31, 2022, income statement, I have listed some possible review procedures that the practitioner may perform for purposes of consolidation with Paradise.

Rental Revenue

- The practitioner may compare the rental revenue in the current period to historical amounts. Because the current period is only two months long, the practitioner may compare the rental revenue in each month (February and March) to the rental revenue earned in the same month last year, and discuss any significant variances with management or with the front desk staff.
- The practitioner may ask for information on the number of each type of unit, the rental rates, and typical occupancy in February and March. They would use this information to calculate an expected rental revenue balance, and would compare that expectation to the balance in the general ledger. They would discuss any significant variances with management or with the front desk staff.

Restaurant Revenue

- The practitioner may compare the restaurant revenue in the current period to historical amounts. Because the current period is only two months long, the practitioner may compare the restaurant revenue in each month (February and March) to the restaurant revenue earned in the same month last year, and discuss any significant variances with the restaurant manager.
- The practitioner may also use historical amounts to understand if there is a trend between rental revenue in a given week, and the same week's restaurant sales. If so, the practitioner could develop an expectation of restaurant sales in February and March using the rental sales from the same period, and compare it to the amount of restaurant revenue recorded in the general ledger. They would discuss any significant differences with the restaurant manager.

Restaurant Food, Beverages, and Supplies

- The practitioner would calculate the historical relationship between this account and the restaurant revenue, to determine if there is a correlation. If so, the practitioner would be able to develop an expectation of this expense account using its correlation to the restaurant revenue, and comparing the outcome to the expense account in the general ledger. Any significant variances would be discussed with the restaurant manager.

Depreciation

- The practitioner would compare the depreciation recorded in February and March to the depreciation expense recorded in previous months. If different, they would inquire of management regarding significant acquisitions, renovations, or disposals. Alternatively, the PP&E general ledger accounts could be reviewed for evidence of acquisitions or dispositions.
- The practitioner would discuss with management what the useful lives are for the different types of plant and equipment held. The practitioner could develop an expectation for depreciation, using the useful lives provided by management and a breakdown of the PP&E balance into smaller categories, and compare to the depreciation recorded.

Interest on Long-term Debt

- The practitioner would compare the interest on long-term debt recorded in February and March to the interest recorded in the immediately preceding month (January 2023). If different, the long-term debt (mortgage) account could be reviewed for evidence of new debt obtained (potentially for the renovations) or for repayments of debt (there would likely be principal repayments each month).
- The interest expense as a percentage of the outstanding debt balance could be calculated by the practitioner and compared to the result of this same calculation, using historical information. If it is a fixed rate mortgage, the interest percentage should be fairly close to the historical interest percentage. If it is a floating rate mortgage, they may have to consider changes in the prime interest rate in determining if the interest percentage is reasonable.
- It may be more efficient for the practitioner to simply obtain the mortgage agreement to see the mortgage details, including principal, interest rate, repayment schedule, and possibly an amortization schedule, which would detail the interest amount by month specifically.

Salaries

- The practitioner would discuss with management the number of positions of each “type” (i.e., restaurant staff, maintenance staff, management, etc.), and the wage rates/salaries for each position. This information should be obtained for February and March 2023, as the business is seasonal. They may also need to adjust their expectation if there are a lot of overtime hours in these busy months. They would use this information to develop an expected amount for this expense, and compare to the amount recorded in the general ledger. Any significant variances would be discussed with management.

- The practitioner could compare the salaries in each month (February and March) to the salaries in the same month last year, and investigate any significant variances. If Jakob's family members are no longer employed by Winnington in 2023, there may need to be adjustments made to the expected value compared to the prior year, given the allegations that family members were paid significantly more than other staff. Also, it may be necessary to separately analyze Jakob's compensation, since it may have included bonuses driven by tax minimization.
- It may make sense to separate salaries from hourly wages when comparing to prior figures. The salaries may be fairly stable from one year to the next, but wages could vary with fluctuations in rental revenue and restaurant revenue. Expectations regarding wages could be adjusted if there were significant fluctuations in revenues in those months compared to the same months in the prior year.

Other Significant Expenses (advertising, insurance, landscaping, gardening, snow removal, office, lease, professional fees, property tax, repairs and maintenance, telecommunications, utilities)

- The practitioner could compare these expenses to prior year amounts (pro-rating for the two-month versus 12-month difference), and inquire with management about any significant variances.
- For any seasonal expenses (e.g., landscaping/gardening/snow removal, utilities, etc.), it may be more efficient to compare February and March to the same month in the prior year and to inquire of management regarding any significant variances.
- Repairs and maintenance expectations may be higher in 2023 compared to the same months in prior years if Paradise has already started to invest more in maintaining the property.

Procedures have not been provided for bank charges and interest as the amount was not material for the year ended December 31, 2022. Therefore, the balance would likely be considered immaterial for the two months of February and March 2023.

For Assessment Opportunity #6 (Audit and Assurance), the candidate must be ranked in one of the following five categories:

Not addressed – The candidate does not address this assessment opportunity.

Nominal competence – The candidate does not meet the standards of reaching competence.

Reaching competence – The candidate provides a few of the review procedures that will likely be performed.

Competent – The candidate provides some of the review procedures that will likely be performed.

Competent with distinction – The candidate provides several of the review procedures that will likely be performed.

APPENDIX E

RESULTS BY ASSESSMENT OPPORTUNITIES FOR DAY 2 AND DAY 3 (FOR ALL WRITERS)

THE LEVEL 2 DEPTH TEST (DAY 2 AND DAY 3)

Financial Reporting:		**NA**	**NC**	**RC**	**C**	**CD**	**C+CD**
Day 2 Common							
AO4	**Goodwill impairment**	2%	16%	22%	57%	3%	**60%**
AO5	**Note payable**	7%	36%	37%	18%	2%	**20%**
AO6	**Subsequent events**	1%	23%	27%	47%	2%	**49%**
Day 3 – Q1 DH							
AO1	**Non-monetary transaction**	2%	11%	39%	41%	7%	**48%**
Day 3 – Q2 the Centre							
AO1	**Grant / donation**	1%	10%	26%	61%	2%	**63%**
Day 3 – Q3 Paradise							
AO5	**ASPE vs. IFRS**	6%	27%	25%	37%	5%	**42%**

Management Accounting:		**NA**	**NC**	**RC**	**C**	**CD**	**C+CD**
Day 2 Common							
AO1	**Inventory costing**	5%	43%	25%	23%	4%	**27%**
AO2	**Break-even analysis**	2%	9%	37%	49%	3%	**52%**
AO3	**Sales variance**	2%	27%	27%	41%	3%	**44%**
Day 3 – Q1 DH							
AO5	**Solar power project**	4%	5%	39%	42%	10%	**52%**
Day 3 – Q2 the Centre							
AO5	**Cost allocations**	3%	11%	26%	58%	2%	**60%**
Day 3 – Q3 Paradise							
AO2	**Data collection**	5%	4%	26%	57%	8%	**65%**

THE LEVEL 3 DEPTH TEST ROLES (DAY 2)

Audit and Assurance		Papers	NA	NC	RC	C	CD	C+CD
AO7	**Related party transaction**	4737	3%	21%	34%	38%	4%	**42%**
AO8	**Fraud risk factors**	4737	1%	17%	26%	54%	2%	**56%**
AO9	**Procedures - financial reporting issues**	4737	2%	19%	19%	56%	4%	**60%**
AO10	**Internal controls**	4737	1%	15%	30%	52%	2%	**54%**
AO11	**Equipment subledger - anomalies/procedures**	4737	3%	24%	25%	46%	2%	**48%**
AO12	**Procedures - provincial regulations**	4737	1%	19%	23%	55%	2%	**57%**
AO13	**Internal audit plan**	4737	2%	34%	27%	36%	1%	**37%**

Finance		Papers	NA	NC	RC	C	CD	C+CD
AO7	**CCF valuation**	192	2%	15%	36%	43%	4%	**47%**
AO8	**Equipment NPV**	192	1%	10%	28%	51%	10%	**61%**
AO9	**Cash conversion cycle**	192	10%	22%	37%	30%	1%	**31%**
AO10	**Quarterly cash flow**	192	11%	22%	33%	33%	1%	**34%**
AO11	**Long-term financing**	192	2%	18%	40%	37%	3%	**40%**
AO12	**Industry data**	192	8%	10%	40%	39%	3%	**42%**
AO13	**Sell or hold**	192	14%	20%	36%	29%	1%	**30%**

THE LEVEL 3 DEPTH TEST ROLES (DAY 2)

Performance Management		Papers	NA	NC	RC	C	CD	C+CD
AO7	**Pea protein suppliers**	652	0%	8%	42%	49%	1%	**50%**
AO8	**Just-in-time delivery contracts**	652	1%	5%	34%	60%	0%	**60%**
AO9	**Transfer pricing**	652	3%	28%	40%	29%	0%	**29%**
AO10	**Market survey analysis**	652	2%	9%	34%	54%	1%	**55%**
AO11	**Salespeople's compensation plan**	652	2%	10%	46%	41%	1%	**42%**
AO12	**Balanced scorecard**	652	6%	15%	40%	36%	3%	**39%**
AO13	**Fit with objectives and operational improvements**	652	6%	33%	33%	27%	1%	**28%**

Taxation		Papers	NA	NC	RC	C	CD	C+CD
AO7	**CCA**	254	1%	8%	16%	72%	3%	**75%**
AO8	**Related & associated**	254	2%	10%	23%	52%	13%	**65%**
AO9	**Taxable income**	254	0%	4%	29%	60%	7%	**67%**
AO10	**Taxes payable**	254	2%	15%	37%	39%	7%	**46%**
AO11	**Automobile benefits**	254	3%	17%	37%	32%	11%	**43%**
AO12	**Share sales**	254	4%	7%	41%	42%	6%	**48%**
AO13	**Personal tax calculation**	254	2%	14%	29%	45%	10%	**55%**

THE LEVEL 4 BREADTH TEST (DAY 2 AND DAY 3, BY COMPETENCY AREA)

Financial Reporting:		NA	NC	RC	C	CD	RC+C+CD
Day 2 Common							
AO4	**Goodwill impairment**	2%	16%	22%	57%	3%	**82%**
AO5	**Note payable**	7%	36%	37%	18%	2%	**57%**
AO6	**Subsequent events**	1%	23%	27%	47%	2%	**76%**
Day 3 – Q1 DH							
AO1	**Non-monetary transaction**	2%	11%	39%	41%	7%	**87%**
Day 3 – Q2 the Centre							
AO1	**Grant / donation**	1%	10%	26%	61%	2%	**89%**
Day 3 – Q3 Paradise							
AO5	**ASPE vs. IFRS**	6%	27%	25%	37%	5%	**67%**

Management Accounting:		NA	NC	RC	C	CD	RC+C+CD
Day 2 Common							
AO1	**Inventory costing**	5%	43%	25%	23%	4%	**52%**
AO2	**Break-even analysis**	2%	9%	37%	49%	3%	**89%**
AO3	**Sales variance**	2%	27%	27%	41%	3%	**71%**
Day 3 – Q1 DH							
AO5	**Solar power project**	4%	5%	39%	42%	10%	**91%**
Day 3 – Q2 the Centre							
AO5	**Cost allocations**	3%	11%	26%	58%	2%	**86%**
Day 3 – Q3 Paradise							
AO2	**Data collection**	5%	4%	26%	57%	8%	**91%**

THE LEVEL 4 BREADTH TEST (DAY 2 AND DAY 3, BY COMPETENCY AREA)

Strategy and Governance		**NA**	**NC**	**RC**	**C**	**CD**	**RC+C+CD**
III-1 AO6	**Vision, mission, values**	3%	7%	33%	46%	11%	**90%**
III-2 AO6	**KPIs**	6%	34%	33%	24%	3%	**60%**
III-3 AO4	**Governance structure & staff concerns**	2%	15%	25%	52%	6%	**83%**

Audit and Assurance		**NA**	**NC**	**RC**	**C**	**CD**	**RC+C+CD**
III-1 AO4	**Audit Plan**	1%	8%	35%	45%	11%	**91%**
III-2 AO4	**Internal controls**	2%	10%	41%	44%	3%	**88%**
III-3 AO6	**Review procedures**	6%	17%	36%	38%	3%	**77%**

Finance		**NA**	**NC**	**RC**	**C**	**CD**	**RC+C+CD**
III-2 AO2	**Investment options**	1%	12%	35%	48%	4%	**87%**
III-2 AO3	**Financing options**	3%	14%	47%	35%	1%	**83%**
III-3 AO1	**Upgrade options**	6%	26%	22%	42%	4%	**68%**

Taxation		**NA**	**NC**	**RC**	**C**	**CD**	**RC+C+CD**
III-1 AO2	**Corporate taxes payable**	2%	7%	25%	54%	12%	**91%**
III-1 AO3	**Taxable benefits**	1%	16%	28%	37%	18%	**83%**
III-3 AO3	**Reassessment, acquisition of control**	2%	18%	42%	33%	5%	**80%**

APPENDIX F

BOARD OF EXAMINERS' COMMENTS ON DAY 2 AND DAY 3 SIMULATIONS

BOARD OF EXAMINERS' COMMENTS ON DAY 2 SIMULATION

Paper/Simulation: **Day 2, Common Role (Bold Plant Foods)**

Estimated time to complete: 300 minutes

Simulation difficulty: Average to Hard

Competency Map coverage: Management Accounting (3);

Financial Reporting (3)

Evaluators' comments by Assessment Opportunity (AO)

AO#1 (Inventory costing)

Candidates were asked to determine the work-in-progress inventory balance on January 31, 2023, and the cost of goods manufactured for January for Bold's chick'n nuggets, using both the weighted average costing and first-in, first-out (FIFO) process costing methods. Candidates were also asked to discuss the qualitative considerations of switching to FIFO for management decision-making, and to recommend which method Bold should use going forward. Information relevant to the calculations was presented in Appendix III (Common). To demonstrate competence, candidates were expected to calculate the work-in-progress balance and cost of goods manufactured under both methods, and integrate qualitative considerations into their recommendation of which method Bold should use going forward.

Candidates struggled with this AO. Candidates appeared unsure of how to approach the calculations, and as a result, their computations of the costs under each method often contained many technical weaknesses. For example, many candidates did not incorporate the concept of equivalent units when calculating the cost per unit, or calculated a total cost that did not reconcile to the costs listed in the simulation. While most candidates provided a recommendation of which method to use, many confused the two methods when discussing the qualitative considerations, for example, by stating that Bold should use FIFO since it is easier, despite the fact that it is considered a more complicated method to apply.

Strong candidates were more likely to provide a reasonable calculation of the work-in-progress balance, and a cost of goods manufactured for January, under both process costing methods. While their calculations often still contained some errors, strong candidates were able to demonstrate their understanding of core process costing concepts by computing equivalent units and assigning conversion costs in their calculations. Strong candidates were also more likely to discuss in better depth the advantages and disadvantages for both methods, for example, often noting that the FIFO method is more difficult to apply but would better capture the volatility of Bold's input costs. As a result, strong candidates typically provided a recommendation that was supported and consistent with their analysis.

Weak candidates were less likely to calculate both a work-in-progress balance and the cost of goods manufactured under the two methods. When they did attempt both calculations, they typically only did it correctly for one of the methods. As a result, these candidates were unable to demonstrate an understanding of the difference between finished and incomplete units of inventory. In addition, the responses of weak candidates were often incomplete. For example, weak candidates often only attempted to calculate the number of units produced, performed the same calculation under both methods, or neglected to label their calculations, which made it difficult to tell if they understood the differences between the two methods. Many weak candidates framed their qualitative discussions from an operational perspective, stating that Bold should use the FIFO costing method as it would impact the freshness of the product, erroneously assuming that the choice of costing method would impact the actual management of Bold's inventory. Weak candidates were also more likely to confuse the two methods when discussing the qualitative considerations.

AO#2 (Breakeven)

Candidates were asked to prepare a breakeven analysis, to aid Bold in deciding whether to lease Pythagoras, a machine that would allow Bold to produce chick'n strips with less labour. Candidates were asked to determine the annual breakeven volumes with and without the machine, as well as the volume of sales at which Bold would be indifferent between the two alternatives. Information relevant to the breakeven analysis was provided in Appendix III (Common). To demonstrate competence, candidates were expected to calculate the breakeven point under both alternatives with minimal errors.

Candidates performed adequately on this assessment opportunity. Candidates were generally comfortable incorporating the various variable and fixed costs listed in the simulation, and correctly calculated a breakeven point under both alternatives with limited errors. While many candidates attempted to determine an indifference point, most did not appear familiar with the correct approach for calculating one, and thus did not provide an indifference point that was reasonable.

Strong candidates had fewer errors in their breakeven calculations and were more likely to correctly calculate an indifference point. Strong candidates were also more likely to show their work in their calculations of the breakeven or indifference points, for example, by listing the formula for the indifference point, which helped to demonstrate their understanding of the concept. Strong candidates were also more likely to compare the breakeven or indifference points to the marketing department's forecasted sales of 250,000 units, providing a useful context for the volumes calculated.

Weak candidates often displayed critical errors in their breakeven calculations, such as using the marketing department's forecast of 250,000 units to calculate gross profit, rather than a per-unit contribution margin, thus defeating the purpose of performing a breakeven analysis. Other weak candidates divided fixed costs by the selling price instead of the contribution margin, or removed fixed costs relevant to both alternatives, resulting in breakeven calculations that were not useful. Weak candidates were also more likely to exclude the lease costs of the new machine in their calculations or to include variable costs, such as direct labour or commissions, in their determination of fixed costs under both methods.

AO#3 (Variance analysis)

Candidates were asked to calculate the sales volume variance for three products (burgers, nuggets, and sausages), and to break down the variance between the sales quantity and sales mix variances. Candidates were also asked to discuss the causes for the variances, and the impact of the variances on profits. Information relevant to the sales variances was presented in Appendix III (Common). Further details regarding Bold's marketing strategies, which helped to explain the variances noted, were found in Appendix I (Common). To demonstrate competence, candidates were expected to provide a reasonable calculation of some of the variances and discuss their potential causes, using case facts. Candidates could also demonstrate competence by discussing the impact of the variances on profits.

Candidates struggled with this AO, which was a more difficult sales variance AO, since product mix needed to be considered. While most candidates were comfortable calculating the sales volume variance, they did not show an understanding of how to further break down the variance into sales quantity or sales mix variances. Some candidates incorporated details of Bold's marketing strategies into their discussion of the causes of the variances, such as noting the contract for the sale of chick'n nuggets to a new customer. However, most candidates did not tie the impact of the variances to Bold's overall profitability.

Strong candidates were more likely to attempt to calculate sales quantity or sales mix variances. In addition, when they did attempt the variances, they appeared to understand the underlying principals of these variances better. For example, strong candidates incorporated the budgeted weighted average contribution margin into their calculations, allowing them to identify that the different products had different profitability. In addition, strong candidates were more likely to identify the fact that, while Bold sold a greater volume of nuggets than budgeted, this product had the lowest contribution margin, and thus did not contribute sufficient profit to cover the lower unit sales for the burgers and sausages. Strong candidates were also more likely to discuss the causes for the variances for each of the products, using case facts such as the temporary discount offered on the price of sausages.

Weak candidates often did not break down the sales volume variance into the sales quantity or sales mix variances. These candidates often performed multiple sales volume variance calculations, using different multipliers such as actual selling price and budgeted selling price. In their qualitative discussions, weak candidates often repeated the mechanics of their calculations, or simply stated whether the variances were favourable or unfavourable, rather than bringing in specific case facts to explain their causes. Most weak candidates did not incorporate the contribution margins provided in the simulation in their responses, and as such, were less likely to describe how the variances would impact Bold's overall profitability.

AO#4 (Goodwill impairment)

Candidates were asked to discuss the financial reporting issues noted by Juliette. Then, in Appendix IV (Common), candidates were provided with information related to the goodwill of the turk'y division, and were told that Juliette thought that no impairment was required to be recorded for the division. To demonstrate competence, candidates were expected to identify that there were events and circumstances that may indicate impairment, such as the loss of two large contracts to a new competitor, and to recognize that an impairment test should be performed. Candidates were then expected to compare the division's carrying value to its fair value, and conclude in a manner consistent with their analysis on whether an impairment should be recorded.

Candidates performed well on one part of the AO but struggled with another part. While most candidates were able to identify the events and circumstances that may indicate impairment, many struggled to correctly calculate the carrying value of the division. In addition, while most candidates performed an impairment test and concluded consistently with their analysis, many candidates appeared confused about which figure to compare to the division's carrying value, for example, using undiscounted cash flows or including disposal costs in their determination of fair value.

Strong candidates were more likely to discuss the events and circumstances that indicate impairment in greater depth, calculate the division's carrying value correctly, and use the appropriate fair value in their test to determine if impairment existed. Strong candidates were also more likely to discuss whether the turk'y division would be considered a reporting unit and thus warranted an impairment test at that level of reporting.

Weak candidates were more likely to stop their analysis after recognizing the events and circumstances that indicate impairment, or to perform an inappropriate calculation of the division's carrying value, such as adding all of the assets and liabilities together. Weak candidates were also more likely to use *ASPE 3063, Impairment of long-lived assets* to assess the situation, despite the fact that goodwill is not a tangible asset. These candidates often stated that the impairment test should use the higher of fair value or value in use, or used amounts other than fair value to compare to carrying value, such as undiscounted cash flows. As a result of errors elsewhere in their analysis, weak candidates often concluded that there existed an amount of impairment greater than the book value of the goodwill related to the division.

AO#5 (Note payable)

Candidates were asked to discuss the financial reporting issues noted by Juliette. Then, in Appendix IV (Common), candidates were provided with the details related to a note payable that was issued, with a below-market interest rate, to purchase new manufacturing equipment. To demonstrate competence, candidates were expected to identify the fact that the note payable contained a below-market interest rate, and thus should be recorded at fair value. Competent candidates were expected to attempt to calculate the fair value of the financial instrument, and conclude consistently with their analysis.

Candidates struggled with this AO. Many candidates appeared confused about how to approach the issue or missed the issue entirely, not recognizing that the note payable needed to be adjusted to its fair value. Most candidates simply stated that the note payable met the definition of a liability and was recorded correctly. Of the candidates who did recognize the need to account for the below-market interest rate, many appeared confused about how to address it, and did not continue with any further analysis after identifying the issue.

Strong candidates recognized that the below-market interest rate on the note payable led to a benefit that should be accounted for. These candidates were able to identify the note payable as a financial instrument, and recognized that the correct approach would be to determine the fair value of the note. These candidates often attempted a present value calculation to determine the note's fair value, with some strong candidates correctly using the company's typical borrowing rate of 6.5% in their calculations, instead of the 2% below-market interest rate.

Weak candidates were more likely to miss the issue entirely, or to state that the current accounting treatment was correct without providing further analysis. These candidates often did not recognize that there was a benefit to borrowing at a below-market interest rate, or that the note payable would be considered a financial instrument. While some weak candidates recognized the need to record the note payable at fair value, these candidates were more likely to have errors in their calculations or conclusions, such as simply multiplying the principal of the note by its interest rate and concluding that this amount needed to be expensed.

AO#6 (Subsequent events)

Candidates were asked to discuss the financial reporting issues noted by Juliette. Then, in Appendix IV (Common), candidates were provided with the information related to two subsequent events: the receipt of a government grant, and a lawsuit related to the termination of a former employee. To demonstrate competence, candidates were expected to discuss the accounting treatment for the two subsequent events.

Candidate performance on this AO was mixed. While some candidates were able to discuss the issues in reasonable depth, many candidates struggled to recognize the issue being tested. For example, many candidates attempted to discuss the employee termination issue solely using *ASPE 3290, Contingencies*, missing the fact that the lawsuit would also be considered a subsequent event and would need to be assessed using *ASPE 3820, Subsequent events*. Similarly, other candidates attempted to discuss the grant subsequent event solely using *ASPE 3800, Government assistance*, focusing their discussions on Bold's recognition of the revenue, rather than determining whether the events presented related to conditions that existed at year end.

Strong candidates were more likely to be in the correct context of the issue, and as a result, focused their discussions on the conditions that existed at year end for both the grant and the lawsuit, such as the competitiveness of the grant program or the cashing of the severance cheque by the terminated employee. Through this lens, strong candidates were able to support their analyses of whether the events would require adjustments to the financial statements at the year-end date, by assessing if the information received after year end provided further information on conditions already existing on December 31, 2023.

Weak candidates often appeared to miss the issue, discussing the two events as if all the information was known at year end. When they did identify the issues as subsequent events, weak candidates were more likely to focus their discussions on the fact that the financial statements were not finalized, rather than assessing whether the events would be considered adjusting or non-adjusting events. Weak candidates often did not provide an explicit conclusion, or simply stated that the events should be disclosed, with no further analysis.

Paper/Simulation: **Day 2, Assurance Role (Bold Plant Foods)**

Estimated time to complete: 300 minutes

Simulation difficulty: Average

Competency Map coverage: Audit and Assurance (7)

Evaluators' comments by Assessment Opportunity (AO)

AO#7 (Related party transaction)

Candidates were asked to discuss the financial reporting issue related to the Meals 2 Go Inc. (M2G) transaction entered into in 2022. Additional details on the transaction were provided in Appendix V (Assurance). To demonstrate competence, candidates were expected to apply case facts to analyze the ASPE guidance for related party transactions, and provide a supported conclusion on how to record the transaction.

Given that it is a more complex financial reporting concept, candidates performed adequately on this AO. Most candidates identified the correct Handbook section to use (*ASPE 3840, Related Parties*), attempted to analyze the criteria from the Handbook, and concluded on how to record the transaction in the financial statements, consistent with their analysis. However, the quality of responses varied, based on candidates' ability to correctly analyze the Handbook criteria, using valid case facts.

Strong candidates demonstrated that they had the technical knowledge required to assess this issue by providing appropriate case facts to correctly analyze the relevant Handbook criteria. For example, strong candidates would explain that, before the transaction, Simon and Juliette did not own any portion of the manufacturing equipment, and now own 40% of the equipment after the purchase, through their ownership of Bold. Therefore, the transaction meets the criterion that "the change in the ownership interests in the item transferred or the benefit of a service provided is substantive." Strong candidates were also able to provide a correct conclusion that the transaction should be recorded at the carrying amount of the asset exchanged, and noted that the difference from the exchange amount should be recorded in equity.

Weak candidates attempted to analyze the correct Handbook section, but then incorrectly applied case facts to the relevant criteria. For example, weak candidates would discuss that Bold is in the business of manufacturing food products, and would conclude that this purchase of manufacturing equipment was in the normal course of business. However, ASPE 3840.27 specifically states that the sale or purchase of capital assets is an activity that is not in the normal course of operations. Some weak candidates reached a conclusion without supporting their discussion, or provided a conclusion that the transaction should be recorded at fair value, which is technically incorrect.

AO#8 (Fraud risk assessment)

Candidates were asked to perform a fraud risk assessment. Specifically, candidates were asked to document the risk factors associated with the possibility of fraud, at both the overall financial statement level and specific to revenue, and to describe the auditor's expected response to each of the risk factors. Information relevant to the fraud risk assessment was provided throughout the case, both in the Common and Assurance sections; however, the majority of the relevant information was provided in Appendix V (Assurance). To demonstrate competence, candidates were expected to discuss a number of fraud risks, covering both the overall financial statement level and revenue, and discuss ways that the auditor would respond to the risks identified.

Candidates performed adequately on this AO. Most candidates provided a reasonable discussion that included several relevant fraud risk factors, and explained how each factor impacted the risk of fraud. The most commonly discussed fraud risk factors were that: the IT manager went on sick leave and there were sometimes delays in removing terminated employees from Bold's systems; salespeople were given targets for 2022 related to total units sold and number of new customers; and salespeople were given the authority to negotiate contracts for sales up to $20,000. Most candidates also attempted to provide a discussion of how to respond to the fraud risks; however, the quality of their responses varied.

Strong candidates often provided better explanations of the fraud risk factors by linking their discussion to the three elements of the fraud triangle (incentive, opportunity, and rationale). Strong candidates also provided better descriptions of ways that the auditor would respond, which were specific to the fraud risk factors identified. For example, relating to the fraud risk factor that salespeople were given the authority to negotiate contracts for sales up to $20,000, strong candidates would identify the need to focus audit testing on contracts under $20,000, and would recommend verifying that the terms and conditions of the sampled sales contracts align with Bold's pricing list and discount policies.

Weak candidates provided a generic external audit planning memo, which included a discussion of risks of material misstatement at the overall financial statement level. As a result, weak candidates struggled to provide factors that increased the risk of fraud, instead focusing their discussion on factors that increased the risk of error. Also, weak candidates often did not discuss ways that the auditor would respond to the risks identified, as that element is not a typical component of an external audit planning memo.

AO#9 (Procedures – accounting issues)

Candidates were asked to describe the audit procedures that the external auditors will likely perform on the financial reporting issues discussed (goodwill impairment, note payable, subsequent events, and M2G related party transaction). Information on the financial reporting issues was provided throughout the case, both in the Common and Assurance sections. To demonstrate competence, candidates were expected to discuss several procedures that would address the specific risks related to the financial reporting issues identified.

Candidates performed well on this relatively straightforward AO. Most candidates demonstrated sufficient breadth by providing one or two procedures for each of the financial reporting issues. Most candidates were also able to adequately explain their procedures by discussing what audit evidence they would obtain, and what they would do with that audit evidence. The procedures that were most often adequately explained, and that addressed the most significant risks, were related to the employee termination lawsuit, the grant, and the transaction with M2G, as these areas are more straightforward to audit.

Strong candidates clearly demonstrated that they understood the significant audit risks of each financial reporting issue. For example, for the grant, instead of simply verifying the grant amount to the confirmation letter or bank statement, strong candidates focused their audit procedures on the timing of the event by verifying that Bold received the confirmation in February 2023, to determine whether the amount should be recorded in 2022 or 2023. Strong candidates also provided precise and well-described procedures, clearly noting what external evidence would be obtained, and what the auditor should do with that evidence.

Weak candidates tended to provide vague procedures without suggesting what specific audit evidence needed to be obtained and what information needed to be verified, which made it difficult to determine exactly what they were proposing, and what risk they were trying to address. For example, some weak candidates recommended reviewing the terms and conditions of the note payable agreement, to verify that the note was recorded appropriately, without specifying what terms or conditions were critical to the accounting treatment of the note payable. In addition, some weak candidates provided generic audit procedures for the relevant financial statement accounts (property, plant, and equipment, other liabilities, etc.) instead of focusing their procedures on the specific risks associated with the financial reporting issue.

AO#10 (Internal controls)

Candidates were asked to review Bold's purchases and payables process, discuss any internal control weaknesses, and provide recommendations to address them. A process description was provided in Appendix V (Assurance). To demonstrate competence, candidates were expected to identify several internal control weaknesses, explain the implication of each weakness, and provide a reasonable recommendation for addressing each weakness.

Candidates performed adequately on this AO. Most candidates identified many of the weaknesses and discussed them in sufficient depth. The most commonly identified weaknesses were that: Juliette, Simon, the controller, or any department manager are authorized to make purchases; the purchaser signs the supplier invoice to indicate that the goods/services have been received; and the accounts payable clerk makes note of the discount payment date in their calendar.

Strong candidates better explained the implications of each weakness identified. For example, relating to the fact that Juliette, Simon, the controller, or any department manager are authorized to make purchases, strong candidates explained that department managers could be creating duplicate orders or missing out on volume discounts because there is no one overseeing the purchase process. Strong candidates also often provided clearer and more specific recommendations. For example, relating to the fact that the purchaser signs the supplier invoice to indicate that the goods/services have been received, instead of simply stating that the purchaser should not be receiving the goods, strong candidates recommended having a warehouse manager receive the goods, and count and inspect the goods received against the invoice, to ensure that all of the goods that were invoiced were actually received.

Weak candidates often spent time discussing case facts that were not problematic, and as a result, provided discussions with limited value to the user. For example, they discussed how initials are easier to forge than a signature, or that the same people who authorize cheques should not be allowed to authorize electronic funds transfers. In addition, the recommendations they provided were often not sufficiently specific or practical. For example, weak candidates often suggested that discounts should be processed automatically, but did not describe how to automate the discount process. Some weak candidates also provided multiple discussions that addressed similar issues. For example, weak candidates often provided separate discussions regarding too many individuals having authority to make purchases and that purchases should require approval. As the implication and recommendation in these two discussions are similar, these candidates were unable to demonstrate competence because there was insufficient breadth in their discussion.

AO#11 (Equipment subledger – anomalies and procedures)

Candidates were asked to analyze the sample data from the equipment subledger for anomalies, and recommend additional audit procedures to address the anomalies identified. The data sample from the equipment subledger was provided in Appendix V (Assurance), and was also available to candidates in electronic format in the exam writing software. To demonstrate competence, candidates were expected to discuss some anomalies in the equipment subledger, and recommend some additional procedures.

Candidates performed adequately on this AO. Most candidates provided sufficient breadth of coverage of the anomalies presented in the equipment subledger data. The anomalies that were most often adequately explained were: the office equipment that did not meet the $3,000 capitalization threshold; some assets having zero amortization recorded in 2022 despite being in use; one asset having a negative carrying amount; and the items that were noted as being disposed in 2022 but still had a carrying value as at December 31, 2022. Most candidates also attempted to recommend additional procedures to be performed; however, candidates often struggled to adequately describe those procedures. For example, many candidates recommended recalculating amortization or the net carrying amount, but did not provide any valid pieces of evidence that should be obtained to support the recalculation.

Strong candidates provided procedures that were clearly linked to the anomalies identified. For example, strong candidates discussed obtaining the supporting documentation for the assets that were disposed (sales agreement or receipt of disposal pick-up), to confirm the date of disposal and that the asset details match the information on the equipment subledger, to confirm whether the asset should be written off from the equipment subledger. Strong candidates were also more likely to use the subledger information in electronic format to perform their analysis, including using conditional formatting to identify duplicate asset IDs or assets under the $3,000 capitalization threshold, or using formulas to perform recalculations of the 2022 amortization or the net carrying amount, to identify any calculation errors.

Weak candidates identified issues in the equipment subledger but struggled to explain why the item represented an anomaly. For example, some weak candidates simply stated that two assets did not have any amortization recorded in 2022; however, they did not provide any additional explanation, which was necessary, because no amortization may be appropriate if the asset is not currently in use. Some weak candidates also spent time discussing case facts that were not problematic, and as a result, provided discussions with limited value to the user. For example, some weak candidates discussed that there were assets in the subledger that were of a large value, or discussed that the asset IDs were not in numerical order.

AO#12 (Procedures – compliance)

Candidates were asked to recommend audit procedures that could be performed to verify that Gretta complies with the provincial regulations. Information on the provincial regulations was provided in Appendix V (Assurance). To demonstrate competence, candidates were expected to discuss several procedures that would ensure that Gretta is in compliance with the regulations.

Candidates performed well on this AO. Most candidates demonstrated sufficient breadth by providing procedures for four or five of the provincial regulations. Most candidates were also able to adequately explain their procedures by discussing what evidence they would obtain, and what they would do with the evidence. The procedures that were most often adequately explained were related to the requirements that: training be completed every six months; at least one staff member preparing food in the MFSE holds a valid Food Handler Certificate; and refrigerator and freezer temperatures are to be checked every 12 hours, to ensure that they are maintained within the required ranges.

Strong candidates clearly demonstrated that they understood the risks of each regulation. For example, instead of simply recommending visiting Gretta's food trucks on a selection of dates to ensure that one staff member had a valid Food Handler Certificate, strong candidates recommended obtaining the listing from Gretta of all employees who were certified food handlers, inspecting a copy of each of their certificates to ensure that they were valid, and then inspecting a sample of work schedules, to ensure that each shift had an employee scheduled who holds a valid Food Handler Certificate. Strong candidates also provided precise and well-described procedures, clearly noting what external evidence would be obtained, and what the auditor should do with that evidence.

Weak candidates tended to provide vague procedures without suggesting what specific evidence needed to be obtained, and what information needed to be verified in order to do so. Some weak candidates provided procedures that only involved inquiry or observation, with no further testing. For example, related to the regulation that refrigerators must be maintained between -2°C and +2°C, some weak candidates simply recommended going to the food trucks and observing the temperature of the fridge. This was not a sufficient audit procedure as the procedure does not address the key element of the regulation, which specifies that temperatures are to be checked every 12 hours, and any deviations are to be immediately followed up.

AO#13 (Internal audit plan)

Candidates were asked to comment on the draft internal audit plan for Bold for 2023 that a junior associate prepared. The draft internal audit plan was provided in Appendix V (Assurance). To demonstrate competence, candidates were expected to discuss several elements of the internal audit plan and make recommendations for how the internal audit plan could be improved.

Candidates struggled with this AO. Many candidates demonstrated technical weaknesses in their analysis by providing an external audit planning memo. Most candidates attempted to discuss the information noted in the appendix; however, there was a variety of approaches, and the discussions were not always in the correct context of internal audit. Candidates most often adequately discussed that internal audit should focus on divisions and departments where there has been a change in senior management and high staff turnover, and that the senior manager of each department should not be selecting the samples for testing the repairs and maintenance balance. However, candidates often struggled to adequately discuss the other areas of the internal audit plan.

Strong candidates attempted to comment on most of the elements of the draft internal audit plan, and described what the weaknesses were in the plan, while also providing a recommendation of how the plan should be revised. In addition, strong candidates would often integrate information from other areas of the case to support why internal audit should focus their testing on certain divisions or departments. For example, strong candidates identified that the revenue sample only included new customers in the chick'n division, and recommended that the sample be expanded to include new and existing customers, as salespeople were given targets related to total units sold. Therefore, salespeople could be incentivized to overstate sales amounts of either new or existing customers, to meet their targets.

Weak candidates often provided little to no analysis of case facts to support what the weaknesses were in the draft internal audit plan. For example, some weak candidates recommended that the turk'y division should be included for testing as there could be errors in that division, but they did not provide any case facts or explanation of why there may be errors in the turk'y division. In addition, many weak candidates' discussions were not in the context of internal audit, and they instead provided a typical external audit planning memo.

Paper/Simulation: **Day 2, Finance Role (Bold Plant Foods)**

Estimated time to complete: 300 minutes

Simulation difficulty: Average to Hard

Competency Map coverage: Finance (7)

Evaluators' comments by Assessment Opportunity (AO)

AO#7 (Capitalized cash flow)

Candidates were asked to prepare a valuation of Bold using the capitalized cash flow method, based on 2022 information, and estimate Treadstone's annualized return on its investment, based on this valuation. Bold's draft financial statements were provided in Appendix II (Common), and details on Bold's financial performance were provided in Appendix V (Finance). To demonstrate competence, candidates were expected to prepare a valuation of Bold using a capitalized cash flow methodology that incorporated a reasonable WACC and growth rate assumptions, starting with Bold's EBITDA and making a reasonable number of normalization/ cash flow assumptions, and incorporating a sufficient number of balance sheet adjustments, to arrive at Bold's equity value.

Candidates performed adequately on this AO. Most candidates attempted to value Bold using the capitalized cash flow method. In applying this methodology, most candidates started with pre-tax income and made appropriate adjustments to arrive at Bold's normalized cash flows (typically adjusting pre-tax income for interest and/or amortization to arrive at EBITDA, and making normalization/ cash flow adjustments for consulting fees, system costs, and income taxes), capitalized the cash flows using an appropriate discount rate and growth rate, and made some balance sheet adjustments (typically one or more of the outstanding debt components) to arrive at Bold's equity value. Most candidates also attempted to calculate Treadstone's return on its investment, although many candidates calculated a total return as opposed to an annual return.

Strong candidates were able to make more appropriate cash flow adjustments, such as adjusting pre-tax income for accretion or adding back the loss on disposal of assets, appropriately normalizing for the abnormal waste, or deducting sustaining capital expenditures, to arrive at sustainable cash flows. Strong candidates also made more appropriate balance sheet adjustments, such as the tax shield on the UCC balance and redundant assets (i.e., the patent). Strong candidates were also more likely to incorporate income taxes in their analysis, either as part of the normalized cash flow calculation or by considering latent taxes on the redundant asset.

Weak candidates started with total cash flows (including cash flows from financing and investing) rather than focusing on cash flow from operations, which would be more relevant to valuing a company using the capitalized cash flow method. Weak candidates also made few normalization and cash flow adjustments, or made technical errors in their adjustments (for example, adjustments made in the wrong direction). Weak candidates sometimes confused income statement and balance sheet adjustments. For example, these candidates included sustaining capital expenditures as a balance sheet item, or incorporated the tax shield on UCC balance in their normalized cash flow calculation. In applying the capitalized cash flow method, some weak candidates also applied an incorrect discount rate (such as the cost of debt of 6%) or did not consider the impact of growth on the capitalization multiple.

AO#8 (Equipment NPV)

Candidates were asked to prepare a capital budget analysis of replacing the chick'n burger machine, discuss assumptions and risks that would affect the analysis, and make a recommendation. Information on the chick'n burger machine was provided in Appendix V (Finance). To demonstrate competence, candidates were expected to prepare a net present value analysis, taking into consideration incremental cash flows and a reasonable number of relevant inputs, discuss some risks and assumptions, and provide a recommendation.

Candidates performed well on this AO. Most candidates seemed comfortable with preparing a net present value analysis; candidates incorporated incremental cash flows from increased sales and some relevant annual cash flow items in their analysis (typically, the labour savings, maintenance and hydro costs, and recalibration costs), as well as appropriate upfront and five-year costs (such as the salvage values). Most candidates attempted to discuss some qualitative considerations, such as the production estimates, service guarantee, and employee layoffs, and provided a supported recommendation.

Strong candidates incorporated more complex adjustments in their net present value analysis, such as taxes (including income taxes and tax shield calculations), working capital (and the release of working capital), and foregone salvage value in Year 5. Strong candidates also discussed more relevant qualitative considerations in depth, focusing on risks and assumptions such as the salvage value and expenses related to the recalibrations.

Weak candidates sometimes did not consider a net present value analysis, instead calculating annual cash flows without incorporating the time value of money, did not consider incremental cash flows (not recognizing that the new machine replaces an existing machine), only considered a few of the relevant cash flow items in their analysis, or made adjustments in the wrong direction. Most weak candidates did not discuss qualitative considerations, and when they did, their discussion often lacked depth, for example, restating the case fact that recalibration will result in additional downtime without explaining that this could negatively impact the NPV or cause production delays.

AO#9 (Cash conversion cycle)

Candidates were asked to calculate Bold's cash conversion cycle, discuss Bold's working capital, and estimate the cash impact of bringing Bold's working capital in line with industry averages. Bold's draft financial statements were provided in Appendix II (Common), and information on Bold's working capital and industry ratios was provided in Appendix V (Finance). To demonstrate competence, candidates were expected to calculate Bold's cash conversion cycle using Bold's working capital ratios (incorporating a reasonable number of components), provide a discussion of Bold's working capital, and attempt to calculate the cost to bring Bold's working capital in line with industry, incorporating a sufficient number of components.

Candidates struggled with this AO. Most candidates attempted to calculate Bold's cash conversion cycle. However, many candidates used Bold's target working capital ratios or industry averages as opposed to Bold's actual working capital ratios, or calculated the working capital components, such as days in receivables, days in payables, and inventory turnover, without using these ratios to calculate Bold's cash conversion cycle. Most candidates attempted to compare Bold's working capital ratios to the industry, but often did not discuss the reasons for the difference, or provide recommendations on how Bold could bring its ratios in line with the industry. Some candidates also attempted to calculate the cost to bring Bold's working capital ratios in line with the industry; candidates who attempted this calculation often provided a reasonable analysis.

Strong candidates calculated Bold's cash conversion cycle using Bold's actual working capital ratios, discussed why Bold's working capital ratios differed from the industry (for example, as a result of differing credit policies), and/or provided recommendations on how Bold could bring its working capital ratios closer to the industry (for example, by changing credit policy terms or offering discounts). Strong candidates also attempted to calculate the cash impact of bringing Bold's working capital in line with the industry averages by considering the difference in working capital ratios, or by applying the industry working capital ratios to Bold's revenues and expenses.

Weak candidates did not incorporate all relevant components in the cash conversion cycle, or calculated it incorrectly (for example, by adding the days in receivables, days in payable, and days in inventory together). Weak candidates simply stated whether Bold's working capital ratios are higher or lower than the industry without further discussion or analysis, and did not discuss how Bold could bring its working capital to the industry levels. Weak candidates did not attempt to calculate the working capital adjustment required to bring Bold's working capital to the industry average.

AO#10 (Cash flow forecast)

Candidates were asked to prepare a quarterly cash flow for each of the next three quarters and conclude on the amount of additional short-term financing required, if any. Information on Bold's quarterly forecast and its working capital was provided in Appendix V (Finance). To demonstrate competence, candidates were expected to prepare a quarterly cash flow for Bold, incorporating opening cash and some cash flow items, and make appropriate adjustments to sales and expenses, based on Bold's working capital ratios.

Candidates struggled with this AO. Most candidates attempted to calculate the change in cash flow for each quarter by incorporating some relevant items, often the sales, expenses, and capital expenditures; however, most candidates did not consider the impact of working capital in their calculation. Candidates who attempted to adjust for working capital often struggled with the adjustment, particularly given that they were asked to prepare a quarterly forecast and therefore needed to consider the impact of working capital in each quarter; many candidates had difficulty using the target working capital ratios to calculate the quarterly working capital changes. Most candidates concluded on the amount of short-term financing that Bold requires.

Strong candidates incorporated Bold's opening cash balance to calculate the ending cash position in each quarter and determine the amount of short-term financing required. Strong candidates also recognized that a working capital adjustment was required, attempted to consider the time Bold would require to collect its receivables and pay its expenses, and adjusted the cash flows to reflect the timing of these collections and payments. Strong candidates also incorporated more items in Bold's cash flow forecast, such as debt repayments.

Weak candidates incorrectly calculated Bold's quarterly cash flows, for example, by adding sales and expenses rather than deducting expenses, or by omitting either the cost of goods sold or other expenses. Most weak candidates did not consider a sufficient number of relevant items, often excluding adjustments for capital expenditures and debt repayments. Many weak candidates did not conclude on the amount of short-term financing required, or provided a conclusion that was inconsistent with their analysis.

AO#11 (Long-term financing)

Candidates were asked to assess two long-term financing options from the perspectives of Bold and each of its shareholders, and provide a recommendation. Information on the Planet Earth Ethical Fund proposal was provided in Appendix V (Finance), and information on Treadstone's offer was provided on the Finance requirements page. To demonstrate competence, candidates were expected to discuss both the Planet Earth and Treadstone offers, and provide a supported recommendation.

Candidates performed adequately on this AO. Most candidates recognized that there are two financing options with the same payment terms, and discussed both financing options. However, candidates were more likely to discuss the Planet Earth Ethical Fund offer in more depth, as more explicit terms were provided for this option. Most candidates also took into consideration some relevant factors, including the interest rate, audit requirement, right to observe, and the dilution. Most candidates provided a recommendation supported by their analysis.

Strong candidates considered the unique perspectives of Treadstone and other shareholders (Simon and Juliette), such as Treadstone having the ability to acquire additional shares to maintain its percentage of equity owned, and Simon and Juliette, who would be further diluted. Strong candidates also calculated the impact of conversion on each of the shareholders, and discussed the dilution. Strong candidates also discussed more qualitative considerations, such as the dividend restriction, and risk associated with having a new investor involved in Bold's operations.

Weak candidates did not understand that there are two financing options with the same payment terms, and discussed them as a single option without considering the difference between the options, or did not consider the Treadstone option as an alternative (i.e., concluded on whether to accept the Planet Earth Ethical Fund offer only). Weak candidates did not understand or consider the impact of the conversion, and did not discuss the dilutive impact on the existing shareholders.

AO#12 (Industry data)

Candidates were asked to assess the quality and relevance of some industry data and provide an analysis of Bold's performance against the relevant data. Information on the industry data, including the relevant graphs, was provided in Appendix V (Finance). To demonstrate competence, candidates were expected to assess the data quality and relevance, and provide an analysis of Bold's performance, based on the data provided.

Candidates performed as expected on this AO. Most candidates discussed all of the comparable companies and assessed which companies were most relevant to Bold (typically based on their product mix). Most candidates also discussed the revenue growth, gross margin, and selling price metrics, based on the selected comparable companies, although candidates were more likely to be able to discuss the gross margin and selling price in depth as they were presented in the same graph. Most candidates demonstrated depth by discussing the impact of selling price on gross margins (i.e., Bold's retail price is within the average of the comparable companies but it generates lower gross profit margins, suggesting that it has less efficient production processes or needs to charge a higher price).

Strong candidates discussed some of the issues with the data quality (such as the source of the data) and each of the comparable companies; in assessing Bold's performance, they considered only the relevant companies, which improved the relevance of the points discussed. Strong candidates also assessed Bold's revenue growth, gross margin, and selling price relative to the relevant companies, and discussed how this might impact Bold's performance (i.e., its low level of historical growth and ability to generate increased growth, based on the industry competitiveness) and ability to compete (given its low gross profit margins, despite having average selling prices).

Weak candidates focused on the comparable companies only (which only speaks to data relevance and not data quality), and often provided a superficial analysis that did not fully explain why the companies were comparable to Bold (for example, considering their product lines only and no other relevant factors). Weak candidates typically did not discuss the data quality, and compared the average revenue growth or gross margin to Bold's without further discussion or assessment of Bold's overall performance. For example, some candidates stated that Bold's gross margin is lower than the comparable companies without further explanation of how this could impact Bold's ability to be profitable, or the impact on Bold's valuation.

AO#13 (Selling price (sell or hold))

Candidates were asked to calculate the price at which Treadstone would need to sell to realize its targeted annualized return, discuss the implications of selling, and recommend whether Treadstone should remain invested in Bold or sell. Information on Bold's shareholders' agreement was provided in Appendix V (Finance). To demonstrate competence, candidates were expected to calculate Treadstone's target selling price, discuss the implications of selling (which could include an analysis of the shareholders' agreement, other qualitative considerations associated with a sale, or integration with Bold's current valuation and performance), and provide a supported recommendation.

Candidates struggled with this AO. Most candidates attempted to calculate Treadstone's target selling price, although many candidates did not consider an annualized return, assuming instead that the 20% return goal represented a total return. Most candidates attempted some discussion of the shareholders' agreement, often identifying the restrictions on transfer or sale, or the right of first refusal as potential issues for Treadstone in a sale scenario, but not always explaining how this would impact Treadstone (for example, by causing delays in their sale process or by giving other shareholders the ability to stop the transaction). Most candidates also provided a conclusion, typically supported by a comparison to Bold's valuation (AO#7), or its performance relative to its peers (AO#12).

Strong candidates discussed a broader range of considerations related to the shareholders' agreement, such as the right of first refusal and restrictions on transfer or sale, and discussed them in more depth. For example, some strong candidates recognized that the right of first refusal creates a process that could result in Treadstone not being able to realize their target price, if an independent valuator values the shares of Bold at a lower price. Strong candidates also considered the value of Bold by integrating the results of their valuation from AO#7 and its performance (for example, by using the industry data analysis to indicate that Bold's historical revenue growth has lagged behind its competitors, which casts doubt on its ability to compete going forward), and provided a supported recommendation on whether Treadstone should sell.

Weak candidates did not attempt to calculate the target selling price, or provided a calculation that was technically incorrect, for example, basing it on the current valuation or return metrics only, and did not discuss the shareholders' agreement or other qualitative considerations in concluding on whether Treadstone should sell.

Paper/Simulation: **Day 2, Performance Management Role (Bold Plant Foods)**

Estimated time to complete: 300 minutes

Simulation difficulty: Average

Competency Map coverage: Performance Management (7)

Evaluators' comments by Assessment Opportunity (AO)

AO#7 (Pea protein suppliers)

Candidates were asked to analyze whether Bold should terminate its existing contracts and enter into a new, long-term supply contract with AgroPea. Information related to the existing suppliers and the new potential supplier was presented in Appendix V (Performance Management), including general information concerning Bold's external and internal environments that could help candidates assess the options. Candidates could also use the background industry information presented in Appendix I (Common). To demonstrate competence, candidates were expected to provide a reasonable calculation of the annual cost of the pea protein to be purchased in the upcoming year for each option (keeping the two existing suppliers, or replacing them with a new supplier), and provide a reasonable qualitative analysis of the options.

Candidates performed adequately on what was a relatively straightforward AO. Most candidates provided both a quantitative and qualitative analysis. Most candidates were able to provide a reasonable qualitative analysis, addressing numerous elements, and explaining why they were an advantage for one option or the other. Some of the most commonly discussed points were quality control, foreign exchange risk, shipping times, and the experience and familiarity with the suppliers. However, most candidates had more difficulty with the quantitative component of the analysis, especially with the calculation of storage costs, as well as the one-time nature of the penalties to terminate the existing contracts. Most candidates used the monthly storage rate given in the case to quantify the storage costs associated with the current suppliers, not realizing that Bold was not stocking an entire year of purchases, or that each supplier required specific storage times. Many candidates also failed to realize that the penalties paid to terminate the contracts with the two existing suppliers were of a one-time nature, and would not occur every year going forward.

Strong candidates were able to provide a reasonable calculation of the overall costs of purchasing the pea protein from the existing suppliers and from the new supplier, making very few mistakes in the process, and were able to adequately discuss multiple qualitative elements that could be useful in making the final decision. They provided a recommendation that was consistent with their analysis, and noted that, despite having a larger annual cost (especially in the first year, because of the termination penalties), the new supplier was the better choice, considering the qualitative factors analyzed.

Many weak candidates presented a very shallow quantitative analysis, merely consisting of a comparison of the price of the pea protein under both scenarios, and ignoring the termination, storage, and quality control costs. The information needed for the quantitative analysis was presented to the candidates in narrative form in Appendix V, and some weak candidates did not identify the need to perform a complete quantitative analysis. Instead, they presented each quantitative element as part of their qualitative analysis, as a "pro" for one option or a "con" for the other, not realizing that they could be used in a formal calculation of the annual cost of both options. In their qualitative analysis, weak candidates provided fewer arguments, and the depth provided in each of them was often insufficient. They generally presented their response as a bullet-point list of pros and cons, merely repeating the case facts without explaining them or integrating them with pertinent decision factors. For example, they would argue that a pro of changing suppliers was that the new supplier was located closer to Bold's location without expanding on it further, such as explaining that, as a result, the products from the new supplier would more likely be fresher, or that the shipping times would be shorter.

AO#8 (Just-in-time delivery)

Candidates were asked to analyze the information provided related to cost estimates for a potential new customer who requested just-in-time delivery, using either Bold's existing shipping company or a new potential supplier, FFD (a logistics company that Treadstone has an investment in), and recommend which company to use. Information related to the current shipping company and FFD was presented in Appendix V (Performance Management), including general information concerning Bold's external and internal environments that could help candidates assess the options. Candidates could also use the background industry information presented in Appendix I (Common). To demonstrate competence, candidates were expected to calculate the annual shipping costs of the new just-in-time contract in the upcoming year for each option (keeping the existing shipping company, or replacing it with FFD), provide a qualitative analysis of the options, and recommend which company to use.

Candidates performed well on this relatively easy AO. Most candidates provided both a quantitative and qualitative analysis. Most candidates were able to provide a reasonable qualitative analysis, addressing numerous elements. The most commonly discussed items were the inventory tracking capabilities of FFD, the fact that FFD used electric vehicles, or that it was specialized in the delivery of frozen foods. The candidates explained why they were an advantage for one option or the other. Most candidates performed a reasonable quantitative analysis as well, but that component was often weaker than the qualitative analysis. Most candidates struggled with incorporating the inventory system upgrade costs into their analysis, either considering it as a recurring cost, or concluding that it should be excluded from the analysis because it was either a sunk cost or a cost that was common to both options, which was not the case.

Strong candidates were able to provide a perfect calculation of the overall costs of shipping the products using each of the two companies, and were able to adequately discuss multiple qualitative elements that could be useful in making the final decision. They provided a recommendation that was consistent with their analysis, and noted that, despite having a larger annual cost (except in the first year because of the inventory system upgrade cost required with the current shipping company), FFD was the better choice, considering the qualitative factors analyzed.

Weak candidates presented a quantitative analysis that contained numerous errors, such as ignoring the system upgrade cost altogether or considering it as a recurring cost, miscalculating the shipping costs associated with the current supplier, miscalculating the handling and packing costs that would be avoided by changing to FFD, or incorporating the revenues and the costs of goods sold of the contract with the customer, which were the same under both options. In their qualitative analysis, weak candidates provided fewer arguments, and the depth provided in each of them was often insufficient. They often presented numerous quantitative elements as "pros" or "cons" of changing suppliers, not realizing that these elements had already been incorporated into their quantitative analysis. For example, some candidates stated the elimination of storage costs as an advantage of opting for FFD whereas this cost reduction had already been incorporated into their quantitative analysis. Other weak candidates presented their qualitative analysis as a bullet-point list of pros and cons, merely repeating the case facts without explaining them or integrating them with pertinent decision factors. For example, they would mention that a pro of changing to FFD was the fact that it was owned by Treadstone, without expanding on it further, such as explaining that, as a result, synergies between Treadstone's holdings could occur, which was one of the objectives of this important shareholder.

AO#9 (Transfer pricing)

Candidates were asked to review the current transfer pricing policy, analyze other potential options from a quantitative and qualitative perspective, and make a recommendation. Information relevant for this analysis was presented in Appendix V (Performance Management). To demonstrate competence, candidates were expected to calculate some of the transfer pricing options (including the current one), and discuss the various options in order to recommend the best one.

Candidates struggled with this AO. Most candidates were able to correctly calculate the current transfer price, based on the unit cost information provided, as well as identify the market price given in the case as being an additional transfer pricing option. However, for most candidates, their discussion of these options lacked depth. For example, many candidates provided a generic discussion of the acceptable methods without attempting to apply it to the scenario presented in the case, while others provided a shallow analysis that was limited to recognizing that the selling division (pea protein mixture) would prefer a higher price in order to reach the 20% gross margin threshold, and the buying division (turk'y) would prefer a lower one for the same reason. Many candidates correctly noted that the pea protein division should be treated as a cost centre instead of a profit centre, or that it was in Bold's interest that the pea protein mixture be purchased internally by the turk'y division, for quality reasons. However, these candidates struggled to incorporate these findings into a meaningful discussion about transfer pricing; their findings were discussed in isolation, without attempting to link them to the transfer pricing issue that they were asked to discuss.

Strong candidates were able to correctly calculate a number of potentially valid transfer prices (such as market price, variable cost, or full absorption cost), and used the case facts concerning responsibility centres, the divisional performance evaluation metric, and/or the available capacity at the pea protein mixture division to articulate a meaningful discussion about the transfer pricing issue. For example, some strong candidates argued that, given the available capacity, the transfer price should be lowered, to encourage the turk'y division to buy internally, since the incremental cost of producing the pea protein mixture was only the variable cost. Other strong candidates argued that, since the pea protein mixture division only sold its product internally, it should be considered a cost centre, and its performance evaluation should be based on cost control rather than on gross margin. These candidates generally argued against the current transfer pricing policy, based on full absorption cost + 15%, since it penalizes the buying division for the cost control inefficiencies of the selling division, and does not encourage cost control on its part. Other strong candidates suggested a negotiated transfer price, and were able to determine an appropriate negotiated price range that could be acceptable for both divisions. The better responses integrated several of these ideas, and suggested a new policy consistent with their analysis.

Weak candidates generally limited their response to calculations of potential transfer prices, and their discussions were generally limited to arithmetic consequences of using them, for each of the divisions. Weak candidates who did provide a qualitative analysis often ignored case facts and provided a purely theoretical discussion of transfer pricing options. Finally, some weak responses showed confusion between a transfer pricing policy based on market price, and having the turk'y division purchase the pea protein mixture on the market outright. These candidates provided a discussion of pea protein mixture procurement, rather than a discussion of transfer pricing policies, and missed answering the required.

AO#10 (Market survey analysis)

Candidates were asked to interpret the results of a market survey and recommend how Bold could improve. The various charts and graphs from the survey were presented in Appendix V (Performance Management). Information on the company and the industry presented elsewhere in the case was also relevant to this analysis. To demonstrate competence, candidates were expected to discuss and interpret the data presented, and provide Bold with useful recommendations on how to improve going forward.

Candidates performed relatively well on this AO. Most candidates provided a reasonable interpretation of the data, and provided a few recommendations. They were able to note that Bold was showing poor performance on the decision factors that mattered the most to customers, attempted to determine the cause of these shortcomings, and provided some recommendations. While most candidates were able to provide a few useful recommendations, some other recommendations provided were often either vague or simplistic. For example, to solve the problem of poor brand recognition for Bold, many candidates recommended that Bold "focus more on brand recognition," without articulating more precisely how that could be achieved. To solve the problem of Bold creating fewer new products than its competitors, many candidates recommended that Bold "create more products," without attempting to recommend the changes to be made in order to achieve this objective.

Strong candidates were generally able to provide more arguments explaining the cause of the problems identified, or to provide a precise solution for the issue. They were also better at making links between the graphs and charts provided. For example, strong candidates understood the link between the low growth in market share for Bold and the number of new products created. They were also able to link the lack of possible tastings of the Bold products by the customers to the low brand awareness of the products. Strong candidates were also able to make links to other case facts concerning Bold, which added more depth to their various analyses. For example, some strong candidates linked the lack of new products being developed by Bold to the amounts invested in the R&D department, and the number of patents being registered by the company. Strong candidates generally provided practical recommendations to Bold, linking them to other case facts. For example, some recommended that Bold make alliances with larger retail store chains, who are not Bold’s customers, and install tasting booths so that customers could taste Bold products, to potentially increase brand awareness.

Weak candidates provided little depth in their analyses, often limiting themselves to describing the data found in the various graphs and charts instead of trying to interpret it. They often made general observations on the lack of brand recognition for Bold, or poor perception by the customers as being an additive-free business, without attempting to either find a cause of the problems or identify a solution for them. The recommendations made by weak candidates, if any, were simplistic or vague, and not useful for Bold. Weak candidates generally failed to identify the links between the graphs and charts presented, and attempted to analyze them in isolation.

AO#11 (Salespeople compensation plan)

Candidates were asked to analyze the strengths and weaknesses of a new compensation plan for the sales employees that went into effect in 2022, and to recommend improvements. Information on the new plan was provided in Appendix V (Performance Management). Again, candidates could also use information on the industry and the company presented in the Common section of the case. To demonstrate competence, candidates were expected to provide a reasonable analysis of the strengths and weaknesses of the new plan, linking their analysis to specific case facts, and recommend improvements to the plan.

Candidate performance on this AO was disappointing. Although most candidates attempted to discuss the strengths and weaknesses of the new compensation plan, many responses were generic, and did not integrate case facts specific to Bold. Most candidates were able to identify an acceptable number of strengths and weaknesses in the new compensation plan, but they were often addressing the plan as a whole rather than the specific components of the plan, such as the base salary, the commission, the bonus, and the relevance of the basis they were calculated on, as well as the data on the training sessions available to salespeople. For example, instead of analyzing the bonus component by assessing the appropriateness of the specific targets it included, they discussed the concept of having a bonus system in a generic way. They also analyzed the commission component in a generic way, without focusing on the specific characteristic of the plan's commissions, which was to be based on contribution margin. Most candidates were able to adequately discuss the appropriateness of offering a base salary, as well as the incentive to perform generated by the commission component of the compensation plan. They were generally also able to adequately discuss the need to involve the employees in the process of determining realistic targets to achieve, for bonus purposes.

In addition to what most candidates did, strong candidates were able to assess each target presented individually, making links to other relevant case facts to support their discussion. For example, some strong candidates discussed the fact that the target based on the number of new customers could be unfair, given that the customers were allocated to the various salespeople by upper management, and that the customer pool was therefore somewhat outside of the salesperson's control. Other strong candidates would note, for example, that the target based on the number of customers would potentially incentivize salespeople to attract several small customers, rather than a smaller number of larger customers, who would potentially be more lucrative for Bold. In general, strong candidates addressed the specific details of the various components of the compensation plan one by one, rather than addressing it as a whole, which allowed them to better support their discussion.

Weak candidates often provided very short responses. Weak candidates discussed fewer elements, and the discussions were generic, with very few links made to Bold's specific situation. For example, many weak candidates mentioned that a plan containing a variable and a fixed component was a strength, without explaining which component of the plan they were referring to, or why this was an advantage in Bold's specific case. Also, some weak candidates explained, for example, that having a bonus scheme based on predetermined targets was a strength, without attempting to address the targets mentioned in the case one by one, or addressing the reasonableness of the targets set or the salespeople's involvement in setting them.

AO#12 (Balanced scorecard)

Candidates were asked to develop a new balanced scorecard that identifies goals, an underlying measure for each goal identified, and a proposed target for 2023, based on goals identified by the shareholders and the various analyses performed by the candidate. Unlike all the other AOs of the Performance Management role, no specific section of Appendix V (Performance Management) was devoted to this AO. The candidates were expected to find the relevant shareholder objectives, and to use their own findings shown in the previous AOs to help them identify the appropriate goals to anchor their scorecard. To demonstrate competence, candidates were expected to provide a reasonable balanced scorecard, showing an understanding of the concepts of goal, measure, and target, and showing integration with shareholder objectives and other analyses they had performed.

Candidates performed adequately on this AO. Most candidates provided several goals, with corresponding measures and targets. However, most candidates chose generic goals that could apply to most businesses, such as improving customer satisfaction, increasing profitability, and improving production processes, and were unable to identify valid measures and targets for most of them. Many candidates had difficulty differentiating the goals (the objectives themselves), the measures (the metrics used to determine whether the objectives are met), and the targets (the specific value of the metric being considered as the minimal value to meet, to consider the objective having been met). For example, some candidates suggested "having a return on investment of 9%" as a goal, which is more of a measure and its target than a goal.

Strong candidates clearly understood the difference between the three elements of a balanced scorecard, and identified multiple goals, as well as relevant measures and realistic targets for the goals identified. They generally chose goals that were specific to either Simon and Juliette's objectives, mentioned in the Common section of the case, or to Treadstone's objectives, mentioned in the last section of Appendix V (Performance Management). Strong candidates also chose goals that were linked with improvements needed at Bold, which they had identified earlier in their responses to other AOs. For example, some strong candidates identified goals such as improving brand awareness, or introducing new products on the market, having noticed weaknesses in those areas when responding to AO#10. Some also identified the goal of reducing Bold's carbon footprint, which is a way to meet the Treadstone objective of investing in environmentally-friendly businesses. What differentiated strong candidates was their understanding of the differences between a goal, a measure, and a target, as well as selecting goals that were specific to Bold's internal and external environment.

Weak candidates struggled to display an understanding of the differences between a goal, a measure, and a target, and often used these terms interchangeably. They often considered only mentioning a theme, to be addressed as a "goal." For example, many weak candidates considered "gross margin" as being a goal, instead of identifying the underlying objective linked with the general theme of gross margin, which is, for example, the improvement of operating profits. The elements of their balanced scorecard were often generic, with no links with anything specific to Bold's situation. Also, many weak responses were very short and did not display enough depth to demonstrate competence.

AO#13 (Treadstone's objectives and operational improvements)

Candidates were asked to assess whether Bold still meets Treadstone's strategic objectives and, if not, to summarize all operational improvements required to do so. Information related to Treadstone's investment objectives was presented in Appendix V (Performance Management). Additional objectives of Treadstone were mentioned in the background information in the Common section. To demonstrate competence, candidates were expected to take each of Treadstone's objectives and assess whether the objectives were still met. When the objective was considered as not being fully met, candidates were expected to provide operational improvements that would help reach the objective (either a new one, or one already suggested by them in response to previous AOs).

Candidates struggled with this AO. Candidate responses for this AO were often very short, which limited the depth of analysis provided. Most candidates referred to the appropriate objectives in their response, and properly assessed whether the objectives had been met. However, the level of depth of their discussion was generally lacking, often only noting that objectives were "met" or "not met," with a short discussion to support it. Candidates were generally more comfortable assessing the financial objectives (ROI of 9%, cash flows from operations, profitability by product), making relevant calculations to assess whether the objectives were met, and providing operational improvement suggestions. Most candidates struggled with the more qualitative objectives (environmental friendliness, potential synergies with other Treadstone holdings, and industry growth). They often failed to provide enough support to the claim that the environmental objective had been met or not, misunderstood the concept of "industry growth" and used Bold's growth instead, and ignored the synergy objective altogether, despite case facts pointing to other Treadstone holdings that were in industries showing potential links with the food industry (food trucks, farms, FFD). Most candidates ignored the requirement to suggest operational improvements.

Strong candidates were able to adequately address most of Treadstone's objectives and suggest operational improvements, often referring to improvements already recommended earlier in their response to other AOs, especially the recommendations related to brand awareness and new products made in the context of AO#10. They were generally able to calculate the return on investment (ROI) earned in 2022 by Treadstone through its investment in Bold, and compare it to the 9% threshold, and to note Bold's positive cash flows from operations. They often used the information provided in the Common section to assess the profitability by product, and were generally able to link the plant-food industry or the presence of electric vehicles in the just-in time delivery project to a reduced carbon footprint. They were able to compare the plant-food industry's growth rate (15%) to the 10% growth threshold required by Treadstone, and saw potential synergies with FFD, food trucks, and farms.

Weak candidates provided short discussions on this AO. Their responses often consisted of a list of objectives, with a "met/not met" comment, with little or no support for the assessment. Weak candidates often used Simon and Juliette's objectives mentioned in the background information in the Common section, rather than addressing this AO from Treadstone's point of view, as requested. Weak candidates generally made no attempt at operational improvements or, when they did, the improvements recommended were not linked with the objectives that had not been met.

Paper/Simulation: **Day 2, Taxation Role (Bold Plant Foods)**

Estimated time to complete: 300 minutes

Simulation difficulty: Easy to Average

Competency Map coverage: Taxation (7)

Evaluators' comments by Assessment Opportunity (AO)

AO#7 (Capital cost allowance)

Candidates were asked to calculate Bold's taxable income and federal income taxes payable for 2022, and candidates had to calculate CCA in order to be able to calculate taxable income. Information on Bold's depreciable assets was provided in Appendix V (Taxation). To demonstrate competence, candidates were expected to calculate CCA on the opening UCC balances, and to incorporate several elements related to the current year additions/dispositions in their CCA calculation.

Candidates performed well on this AO. Most candidates identified the need to calculate CCA, providing a clearly laid out table in Excel, showing the different CCA classes and the various items being added or adjusted. Most candidates included brief notes explaining the items that required explanation (such as the expensed software or the assets not available for use), and arrived at a reasonable CCA figure for the year.

Strong candidates provided a detailed calculation that was also clearly laid out in Excel. In addition to adjusting for several of the typical items (for example, current year additions, the acquired patents, and two dispositions that took place in the year), strong candidates also correctly calculated some of the more difficult concepts, such as the immediate expensing provisions, the expensed software (and related training), and the Class 53-specific accelerated investment incentive rules.

Weak candidates usually attempted a CCA calculation but struggled to incorporate correct adjustments to complete the work. Often, weak candidates made technical errors, for example, claiming immediate expensing on Class 1 additions (immediate expensing is not available for Class 1), using the half-year rule instead of the accelerated investment incentive, putting software additions in Class 50 instead of Class 12 (without explanation to justify this), or calculating CCA on Class 10, even though the balance was negative (and thus had recapture only).

AO#8 (Related and associated companies)

Candidates were asked to determine which companies Bold is related to, and which companies it is associated with, and to explain why these relationships are important to understand. They were also asked to evaluate the income tax treatment of a proposed intercompany transaction. The first page of the case indicated that Treadstone owned 60% of the voting shares of Bold, and that Treadstone was owned by Richard Derman. Appendix V (Taxation) provided a description of each of the companies in which Treadstone, or the Derman family, owned shares. To demonstrate competence, candidates were expected to discuss the relationships (related or associated) between Bold and some of the companies, and discuss the proposed transaction.

Candidates performed adequately on the first part of this AO (related and associated companies, which was expected to be difficult), and performed well on the second part (implications, specifically the tax treatment of a non-arm's length transaction with a related company). Most candidates attempted to discuss some of the relationships amongst the companies, usually with correct discussions of some of the simpler ones (such as Treadstone, which held a controlling interest in Bold, or Planmilk, which was also controlled by Treadstone), and weaker discussions of the more complicated ones (such as Food or Garden, where candidates frequently made technical errors about the ownership percentages required for each type of relationship). Most candidates then went on to discuss the tax implications of transacting below fair market value with a non-arm's length party, specifically identifying that Bold would be deemed to have received proceeds equal to fair market value ($260,000), and that Planmilk would only have an ACB equal to what it paid ($210,000).

Strong candidates had discussions of the related and/or associated rules that clearly applied these rules to the case facts, to determine how each pairing of companies would be treated for tax purposes. Strong candidates discussed many of the relationships (including some of the more complicated ones) in a manner that was technically correct. Strong candidates also provided a clear and correct discussion of the related party transaction.

Weak candidates often struggled to identify any pairing that fit into the related or associated rules, and commonly attempted to discuss Treadstone's relationship with the other companies rather than with Bold. Weak candidates frequently made technical errors in their discussions, for example, using only a 25% share ownership threshold (instead of control) for determining association, or attempting to apply accounting standards regarding significant influence, instead of tax rules around related or associated corporations. Weak candidates, if they attempted to discuss the related party transaction at all, often made technical errors, such as flipping the fair value / cost treatment (saying that Bold would be deemed to transact at cost while Planmilk got a cost basis equal to fair value), or trying to apply stop-loss or superficial loss rules, which were not applicable to this situation (as there was no loss involved).

AO#9 (Taxable income)

Candidates were asked to calculate Bold's taxable income for 2022. Information was provided throughout the common portion of the case about Bold's income for the year, particularly in the financial statements in Appendix II (Common). Additional information about some of the items that were included in income was provided in Appendix V (Taxation), and candidates could have also integrated the results of their financial reporting analyses from the Common section into their calculations. To demonstrate competence, candidates were expected to calculate taxable income, incorporating most of the required adjustments.

Candidates performed well on this AO. Most candidates calculated taxable income, factoring in many adjustments, and providing explanations in cases where the reason for the adjustment was less obvious (for example, explaining that the bonus was not deductible because it was not paid within 180 days of the year end). Candidates most commonly adjusted for the income tax expense, amortization, CCA, meals and entertainment, accounting loss, recapture of CCA, bonus, and expensed software. Most candidates adjusted for the impact of the financial reporting adjustments they had previously discussed, on net income, but did not make further adjustments for tax purposes (they did not identify any differences between the accounting and tax treatments).

Strong candidates also calculated taxable income, factoring in more adjustments. For example, not only did strong candidates account for the impact on net income of the adjustments they had proposed in their discussion of the accounting issues, they also provided an adjustment when the tax treatment was different from the accounting treatment. Many strong candidates also considered the impact of accretion on the asset retirement obligation, and explained each adjustment they made.

Weak candidates attempted to calculate taxable income, often missing several of the significant or basic adjustments in doing so. Weak candidates often failed to add back amortization, obtaining a very low or negative taxable income as a result. Weak candidates rarely integrated the results of their financial reporting discussions, and in turn, did not address the tax implications of those adjustments. They also often included many inappropriate or irrelevant adjustments in their calculations, such as adding back abnormal waste, or adding back (but not subsequently deducting) all research expenses.

AO#10 (Taxes payable)

Candidates were asked to calculate Bold's federal income taxes payable for 2022. Candidates were provided with information about some interest income and foreign-source business income in Appendix V (Taxation), along with information on the corporation's status as a CCPC. Candidates also needed to integrate the results of the work they performed in AO#7 through AO#9, to complete the taxes payable calculation. To demonstrate competence, candidates were expected to perform a reasonable calculation of most of the basic components of tax (base rate, provincial abatement, general rate reduction, and small business deduction (with an explanation for why it was zero)), and to show depth through the more difficult parts of the calculation (for example, discussing incidental income, adjusting the provincial abatement for foreign income, calculating taxable capital, claiming a foreign tax credit, or identifying that the payment deadline had been missed).

Candidates performed adequately on this AO, which was not expected to be easy, given the requirement to address the more difficult elements of the calculation. Most candidates attempted to calculate taxes payable, and a majority had most of the basic components correct. The more difficult components of the calculation were not done as well, but candidates most often claimed a foreign tax credit for the foreign taxes paid.

Strong candidates included all of the basic components correctly in their calculation of taxes payable, and attempted the more difficult components of the calculation, usually the incidental income discussion and the foreign tax credit.

Weak candidates attempted to calculate taxes payable, either in an incomplete manner or with many technical errors. Some weak candidates simply used a shortcut and multiplied all income by a flat rate. These candidates sometimes calculated a rate from the financial statements, sometimes used a rate appropriate for small business income, and sometimes used another rate that could not be reconciled because they did not provide the details of the rate used. Other weak candidates determined (or simply assumed) incorrectly that Bold would be able to claim the small business deduction, and included it in their calculation. Weak candidates rarely attempted any of the more difficult components of the calculation.

AO#11 (Automobile benefits)

Candidates were asked to discuss the income tax and GST/HST implications for Juliette personally, and for the company, if Bold purchases or leases an automobile. Information on the proposed automobile purchase or lease, as well as the business and personal use by Juliette, was provided in Appendix V (Taxation). To demonstrate competence, candidates were expected to discuss or calculate several of the items relevant to the proposed vehicle, including both the personal and corporate side of the transactions.

Candidates struggled on this AO, which was expected to be easy. Most candidates tried to address the personal and corporate tax implications, although many struggled to apply the concepts to the case facts. For example, some candidates used incorrect formulae to calculate the standby charge, or identified only the general rules for deductibility rather than identifying that the vehicle belonged in Class 10.1 because it exceeded the limit for the year. Candidates struggled especially with GST/HST, often not realising that the automobile limits that apply for income tax purposes are also applicable for GST/HST input tax credit purposes.

Strong candidates calculated the standby charge and operating cost benefit, including the alternative calculation for the latter, using the case facts provided to them. Strong candidates also addressed the corporate income tax issues in more depth (usually focusing on Class 10.1, as well as the lease limits), and the GST/HST issues, although even strong candidates struggled to identify the passenger vehicle limits on ITCs.

Weak candidates typically provided a superficial analysis of the employee benefits associated with the automobile, identifying that a standby charge and operating cost benefit would exist, but not calculating or explaining how these benefits are determined. Weak candidates often addressed either the employee benefits or the corporate income tax implications, but not both, and rarely addressed GST/HST at all.

AO#12 (Share sales)

Candidates were asked to calculate the income tax implications of the sales of shares made by Juliette. Appendix V (Taxation) provided details of the transactions undertaken by Juliette with respect to three sets of shares. To demonstrate competence, candidates were expected to calculate the gain/loss on the share transactions, including a reflection of most of the unique elements of the transactions (such as the need to use weighted average costing, a stock dividend, a stock split, disposition costs, and elements of the allowable business investment loss (ABIL) treatment of one of the dispositions).

Candidates performed adequately on this AO, which was not expected to be easy, given that one of the transactions (JKL) involved an ABIL. Most candidates attempted to calculate at least two of the gains (usually the Riverside and Fruitsen ones); if candidates skipped any of the transactions, it was usually JKL. Most candidates had the basic parts of the calculation correct (average costing, the stock split, and disposition costs), but struggled with the stock dividend received, as well as with anything to do with the ABIL, often not even identifying that an ABIL was the issue at hand.

Strong candidates performed correct calculations of all three dispositions, and identified that the loss on the sale of JKL shares would likely qualify as an ABIL, usually going on to explain that the ABIL would be deductible against all income, not just the capital gains.

Weak candidates attempted only the Riverside and Fruitsen calculations, often making errors on both. For example, some candidates added the stock dividend to the cost basis but did not increase the number of shares (or vice versa), failed to reflect the stock split, or deducted 100% of the disposition costs against the 50%-incorporated capital gains. Weak candidates generally did not attempt to calculate or discuss anything to do with the JKL shares.

AO#13 (Personal tax calculation)

Candidates were asked to estimate Juliette's federal income taxes payable for 2022. Information about Juliette's personal taxes was provided in Appendix V (Taxation), and candidates could also integrate the results of their work performed in AO#12. To demonstrate competence, candidates were expected to calculate Juliette's personal income tax using graduated rates, including many valid income inclusions and tax credits in their calculation.

Candidates performed adequately on this AO. Most candidates were able to provide a reasonable calculation of income and of taxes payable, incorporating many of the major income inclusions, including the results of the work they performed in AO#12, and credits.

Strong candidates also provided a reasonable calculation of income and of taxes payable, incorporating many of the major income inclusions and credits, and added depth to their responses by performing the more detailed calculations required for some of the adjustments, such as the tuition transfer, or by addressing some of the more difficult topics, such as the dividend tax credit or the adjustments related to CPP.

Weak candidates usually attempted to calculate income and taxes payable, but made many technical errors along the way. Commonly, weak candidates deducted credits from income rather than from tax, calculated the dividend tax credit incorrectly, missed the threshold calculations for the medical expenses, or claimed more tuition than was allowable.

BOARD OF EXAMINERS' COMMENTS ON DAY 3 SIMULATIONS

Paper/Simulation: **Day 3, Case 1 (DH)**

Estimated time to complete: 75 minutes

Simulation difficulty: Average

Competency Map coverage: Financial Reporting (1);
Taxation (2);
Assurance (1);
Management Accounting (1);
Strategy and Governance (1)

Evaluators' comments by Assessment Opportunity (AO)

AO#1 (ToolMania arrangement) (Fin Rep)

Candidates were told that the client did not know how to account for the new arrangement under which DH received small tools from ToolMania in exchange for hanging a large ToolMania sign in the DH shop for the next three years. Appendix II provided the details on the arrangement with ToolMania. To demonstrate competence, candidates were expected to analyze, in reasonable depth, whether the transaction had commercial substance, and determine the appropriate value for recording the transaction.

Candidates performed adequately on this AO. Most candidates identified that *ASPE 3831 Non-monetary transactions* was the appropriate section of the Handbook for assessing the transaction, attempted an analysis of the relevant criteria, and provided a conclusion on how to record the arrangement with ToolMania. Most candidates provided a sufficient discussion regarding commercial substance, attempting to use case facts in support of their analysis. However, many candidates' discussion with respect to measurement lacked sufficient depth, as candidates often failed to discuss the reliability of the two fair values (tools and advertising), and tended to simply provide a conclusion that was not supported.

Strong candidates used case facts to provide a more detailed explanation of why this transaction had commercial substance, typically describing how the configuration of the future cash flows related to the advertising, and the use of the small tools differed significantly. Strong candidates were also able to explain which fair value, advertising versus small tools, was the most reliable in the situation. For example, many strong candidates explained that ToolMania has never advertised in a business such as DH before, which made the evaluation of the fair value of advertising more difficult to assess, whereas the fair value of the smalls tools was already known. These candidates usually concluded that the transaction should therefore be recorded at the value of the asset received. Strong candidates provided a valid journal entry to record the transaction, recognizing that the tools would be recorded as property, plant, and equipment and subsequently amortized over their three-year useful life, and that the advertising revenue would be deferred and recognized over the three-year term of the arrangement.

Weak candidates provided a superficial analysis of the accounting treatment of the arrangement with ToolMania. Although they generally were in the relevant section of the Handbook, these weak candidates were unable to properly support their analyses or did not properly understand the criteria they were analyzing. For example, weak candidates struggled to explain why this transaction had commercial substance, often arriving at a conclusion without supporting it, or simply stating that the transaction had commercial substance because the arrangement exchanged advertising for small tools, without supporting that statement. Many weak candidates concluded that both fair values were reliable, not properly integrating the case facts that were provided to them. Weak candidates were more likely to incorrectly use the value of the advertising to record this transaction without valid arguments, and often provided an incorrect journal entry, such as recording the difference in values between the advertising and the small tools as a gain.

AO#2 (Federal corporate taxes payable) (Tax)

Candidates were asked to calculate DH's federal corporate income taxes payable. Appendix I contained information that was relevant to this calculation, such as DH's draft income statement, the assets' opening UCC, the non-capital loss carryover balance, and details regarding financing costs, life insurance, staff parties, and a charitable donation. To demonstrate competence, candidates were expected to make several adjustments to the net income for accounting purposes in order to arrive at taxable income, and apply a reasonable tax rate, to calculate taxes payable.

Candidates performed well on this AO. Most candidates attempted to address this required and most commonly provided adjustments for depreciation, CCA on the opening UCC balances, and the non-capital loss carryover. However, candidates struggled to adequately address some of the more complex adjustments, such as those related to donations, life insurance, and financial costs, or to discuss the deductibility of DH's staff parties. Candidates also generally failed to recognize that the tools acquired from ToolMania would, in fact, represent an addition for the purposes of their CCA calculation. Those who did address this addition did not consistently apply correct technical knowledge with respect to immediate expensing or accelerated investment incentive provisions. Most candidates were able to use a reasonable rate for calculating taxes payable, taking into account the small business deduction in the rate they used. Many candidates elaborated on their selected rate by either qualitatively explaining why DH would qualify for the small business deduction or quantitatively demonstrating how the rate was calculated.

Strong candidates incorporated more elements into their taxes payable calculation. For example, they went beyond the commonly addressed adjustments, and incorporated adjustments or discussions on items such as the donations, staff parties, and life insurance. Strong candidates integrated the tool additions from the ToolMania transaction into their CCA calculations, and understood that one-fifth of the financing costs would be deductible in the current year. Strong candidates also consistently selected an accurate rate for calculating taxes payable, and justified the rate either qualitatively or quantitatively.

Weak candidates limited their analysis to only a few adjustments, and many lacked the technical knowledge required for calculating taxable income. This lack of knowledge was more apparent when addressing donations, the expenses related to the staff parties, and the life insurance. For example, many weak candidates treated the donations as a tax credit instead of a deductible expense. When weak candidates provided correct adjustments, they often did not support the treatment they suggested, often simply indicating whether the expense was deductible, without further explanation. Most weak candidates did not use a reasonable rate when calculating DH's federal corporate income taxes payable. For example, some weak candidates incorrectly used personal tax rates and brackets instead of the corporate rate that applied in this case.

AO#3 (Taxable benefits) (Tax)

Candidates were asked to explain which of DH's various employee benefits were taxable. Appendix I contained all relevant information on employee benefits, including details regarding interest-free loans for e-bikes, training, public transit passes, uniforms and safety equipment, childcare costs reimbursed to employees by DH, life insurance on Sami, and the two staff parties. To demonstrate competence, candidates were expected to discuss several of these benefits.

Candidates performed adequately on this AO. Candidates most commonly addressed the training, transit passes, and uniforms and gear, and provided a good discussion of those benefits. The deemed interest benefit on the employee loans was also addressed by many candidates correctly. Some candidates also correctly discussed the taxable benefits related to childcare or the two staff parties, to provide additional breadth of discussion.

Strong candidates analyzed several of the benefits, and provided clear explanations of whether each benefit was taxable to the employees. Many strong candidates provided additional depth to their analysis of some of the benefits. For example, some of these candidates went beyond explaining the deemed interest benefit on the interest-free loans, and also provided the amount of the benefit by correctly calculating the deemed interest, using the prescribed rate for both quarters in 2022. For the staff parties, many strong candidates correctly identified the per-person threshold of $150, and explained how it would impact the taxable benefit status for both the winter and the summer parties. Some strong candidates also recognized that the full $200 value of the winter staff party would be a taxable benefit, as the $150 threshold was exceeded.

Weak candidates limited their analysis to only a few taxable benefits. Many weak candidates also supported their discussion with generic reasoning rather than specific rules that applied to each benefit. For example, when discussing the childcare costs, some weak candidates noted only that it would not be taxable as long as it was provided to all employees, rather than also addressing more specific criteria, such as the requirement for the childcare to be available onsite, to employees only. Weak candidates also demonstrated a lack of technical knowledge. For example, in their discussion of the transit passes, many weak candidates noted that such passes were not taxable benefits as long as they were provided to all employees. Some weak candidates focused their analysis on DH's perspective, discussing the corporate deductibility taxation rules rather than personal taxable benefit rules.

AO#4 (Understanding the audit plan) (Assu)

Candidates were asked to help the client understand the external auditor's audit plan for DH's first audit. More specifically, they were asked about the risks the auditors may have identified, the resulting need for a significant amount of audit procedures, the preliminary materiality figure, and the planned audit approach. Candidates were further asked for suggestions on how DH could lower its audit fees in the future. Appendix III contained relevant information regarding the audit plan. To demonstrate competence, candidates were expected to provide a reasonable discussion of the risks the auditors may have identified, the materiality figure, audit approach, and/or ways to reduce audit fees.

Candidates performed well on this AO. Most candidates appeared familiar with the audit planning context and were able to help their client understand the external auditor's audit plan. Candidates were generally able to identify and explain some of the risks, for example, explaining that, since DH had never been audited before, there would be an increased risk of error within the opening balances, or that the bookkeeper's lack of accounting expertise could lead to mistakes in the financial statements. Most candidates were able to explain the materiality concept to their client, discussing the relevance of financial statement users, and the need to select an appropriate basis and percentage for use in the materiality calculation. Many candidates did not attempt to discuss the audit approach. For those who did attempt to address it, their discussions were often too general, incomplete, or not useful in explaining why the approach would specifically be used in DH's audit. For example, they explained that a substantive approach is used when internal controls are not reliable, with little or no discussion of DH's actual control environment. Most candidates attempted to suggest ways to reduce the audit fees, usually providing a generic recommendation that DH improve their internal controls.

Strong candidates were able to identify additional, more thoughtful risks in explaining why the auditors needed to perform a significant amount of audit procedures. For example, in addition to the commonly addressed risks, many strong candidates discussed the lack of oversight over the bookkeeper, or the incentive to show financial results in a better light since the lender asked for audited financial statements. Strong candidates explained in more depth where the materiality figure was coming from and how it was determined, by specifically identifying users of DH's financial statements, such as the lenders, and tying the selected basis and percentage to user needs in order to support the $7,500 materiality figure. Strong candidates were also able to sufficiently explain the audit approach. These candidates often noted that the auditor would likely use a substantive approach since there were signs of a weak control environment at DH, and supported this with examples of control weaknesses from the case. Some strong candidates were also able to explain why the auditors were planning on using a combined approach for payroll, integrating the fact that DH was using a payroll provider. Finally, strong candidates made concrete suggestions for reducing audit fees, most frequently by providing specific improvements to internal controls. For example, many suggested providing better oversight over the bookkeeper by reviewing her work.

Weak candidates attempted to respond to the questions raised by their client but struggled to provide depth and technical accuracy in their analyses. Some weak candidates tried to respond to the questions raised by their client, but their answers were theoretical and not applied to the case. For example, some explained that materiality is a threshold above which a misstatement could reasonably be expected to influence the economic decisions of financial statement users, with no application to DH's situation, or reference to the amount that had been calculated. Many weak candidates also demonstrated technical weakness when explaining assurance concepts. For example, many explained to their client that materiality is based on risk rather than on user needs, or that the auditors were planning on using a substantive approach because the risks were deemed high, rather than tying their discussion to DH's internal controls.

AO#5 (Solar power project options) (Mgmt Acct)

Candidates were asked to quantitatively and qualitatively assess the options for converting DH's facility to be solar powered, and to recommend one. Appendix IV outlined the two options under consideration, including operational details, expected revenue, savings, and costs for each option, and also provided information regarding DH's current energy usage. To demonstrate competence, candidates were expected to quantitatively assess both options, discuss some qualitative factors, and provide a recommendation.

Candidates performed well on this AO. Most candidates understood the need to provide calculations for each of the two options in order to give the client a full picture of which option would be the most beneficial from a quantitative perspective. Most candidates correctly calculated the relevant inflows and outflows, to arrive at the resulting net cash flows for each option. Candidates were generally able to accurately include most components in their calculations. Many candidates also discussed relevant qualitative factors, usually in relation to DH's electricity needs, energy price volatility, or the availability of a government incentive for companies who own or rent solar panels. Almost all candidates provided a recommendation.

Strong candidates provided clearly laid out and organized calculations, and compared the options on a consistent basis, either by looking at the incremental cash flows associated with each option, relative to the status quo, or by comparing the overall net cash flows generated under each option. Many strong candidates included a sensitivity analysis that fluctuated with the energy market rates, or DH's energy usage, to show the best- and worst-case scenarios under the panel lease option. Strong candidates added depth to their qualitative discussions by clearly explaining the associated risks or benefits, and addressed more qualitative factors overall. Strong candidates provided a recommendation based on both their quantitative and qualitative analysis.

Weak candidates provided quantitative analyses that included significant conceptual errors. For example, many weak candidates assumed that all 70,000 kWh of energy would generate revenue for DH under the lease option, ignoring the fact that DH needed most of that output for its own operating purposes. Weak candidates also frequently used an inconsistent quantitative approach for comparing the two options, which made the comparison less useful. For example, some weak candidates analyzed one option using an incremental approach, while recalculating what the overall net cash flow would be under the other option. Weak candidates also had more difficulty with qualitative discussions, either restating case facts only, discussing few qualitative factors overall, or focusing on the general pros and cons of switching to solar power, rather than the pros and cons between the two solar power options under consideration. Finally, some weak candidates provided only a qualitative analysis, without any attempt to assess the options quantitatively.

AO#6 (Appropriateness of vision, mission, and values) (Strat & Gov)

Candidates were asked to determine whether the client's draft vision, mission, and value statements were appropriate for DH. Appendix V contained the vision, mission, and value statements, as drafted by the client. To demonstrate competence, candidates were expected to analyze whether the proposed vision, mission, and value statements were appropriate for DH.

Candidates performed well on this AO. Most candidates attempted a discussion of all three areas (vision, mission, and value statements), but they had more difficulty explaining why the proposed mission, vision, and value statements were appropriate for DH. Candidates seemed more comfortable suggesting ways to improve the statements rather than explaining whether they were appropriate. For example, many recognized that DH should include environmental considerations in its vision statement, or that providing quality tools should be part of the mission statement. Although not explicitly requested, these improvements often provided some value to the client, especially when they clearly implied what was potentially lacking in the existing mission, vision, and value statements.

Strong candidates provided better explanations of why the proposed vision, mission, and value statements were appropriate for DH, using case facts. For example, many strong candidates realized that DH's proposed vision to be the top-earning company in the home-repair industry did not seem to be a good fit, as the business was inspired by the environmental benefits of repairing versus replacing household items, and saving customers money by allowing them to rent, rather than buy, tools. Strong candidates also provided more detail in their suggestions on how to improve the mission, vision, and value statements, for example, recommending that sustainability be added to the value statement, as it is a concept that is consistent with the environmental benefits that come from repairing an item rather than throwing it away.

Weak candidates usually provided unsupported conclusions on whether the suggested vision, mission, and value statements were appropriate for DH, or provided general explanations of what vision, mission, and value statements should contain, without providing suggestions that were tailored to DH. For example, many weak candidates explained that a vision statement is meant to clarify a business's meaning and purpose, or that the mission statement should explain why an organization exists, but they did not go beyond this to apply these ideas to DH. These weak candidates seemed to be thrown by the fact that they were asked to critically evaluate the suggested vision, mission, and value statements, instead of a more common requirement, such as assessing the fit of a project with an entity's vision, mission, and value statements.

Paper/Simulation: **Day 3, Case 2 (the Centre)**

Estimated time to complete: 80 minutes

Simulation difficulty: Average

Competency Map coverage: Financial Reporting (1);
Finance (2);
Assurance (1);
Management Accounting (1);
Strategy and Governance (1)

Evaluators' comments by Assessment Opportunity (AO)

AO#1 (Grant and donation) (Fin Rep)

Candidates were asked to help with the accounting treatment for a $1 million government grant for the acquisition of a building, and for a $500,000 donation that could be used for anything at the Centre. Details regarding the grant, the acquired building, and the donation were provided on the first page of the case. To demonstrate competence, candidates were expected to provide a reasonable analysis of the accounting treatment of these issues, using ASNPO Handbook guidance and case facts to support their discussion.

Candidates performed well on this AO. Most candidates addressed both the accounting treatment of the grant and the donation. Candidates generally demonstrated a reasonable understanding of the difference between restricted and unrestricted contributions, and how this would impact the accounting treatment, using the deferral method under ASNPO. Most candidates addressed the government grant correctly, concluding on the need to defer the revenue, and explaining how and when the revenue would be recognized. Many candidates also addressed the donation correctly, concluding that it should be recognized in revenue immediately. However, candidates struggled a bit more with the accounting treatment of the donation than that of the government grant. For example, some candidates confused an internal restriction with an external restriction, and therefore provided the wrong accounting treatment for the donation. Although most candidates provided complete analyses, some candidates provided analyses that lacked depth. For example, some analyses were not supported by the relevant guidance in the Handbook and simply contained a conclusion on the accounting treatment. Others provided Handbook guidance but lacked the integration of case facts, for example, discussing that the donation was unrestricted, without further referencing the fact that this was because the donor said they could use the funds for anything.

Strong candidates discussed both the grant and the donation in reasonable depth. They identified the relevant case facts and analyzed them in light of the Handbook guidance. These strong candidates provided in-depth discussions of the government grant, recognizing that the grant was restricted for the purchase of the building, and that it would therefore be brought into revenue at the same rate as the amortization of the building. These candidates often provided journal entries to further demonstrate their understanding of the correct accounting treatment. Many strong candidates also discussed the donation in depth, recognizing that, since the $500,000 could be used for anything, it could be recorded in revenue in the current period.

Weak candidates normally addressed only one of the issues, usually the grant, and their analysis lacked depth. Many weak candidates arrived at a conclusion without providing enough support for this conclusion, using case facts. Other weak candidates applied the incorrect standards, typically ASPE for the government grant, not understanding that a grant is considered a contribution under *ASNPO 4410 – Contributions – revenue recognition*. Some weak candidates showed technical weakness by confusing the fact that the grant was restricted with the restricted-fund method. These candidates therefore discussed whether the contributions should be recognized in general, endowment, or restricted funds, which was not applicable, as the Centre was applying the deferral method.

AO#2 (Investment options) (Fin)

Candidates were asked to analyze the investment options for a $500,000 donation that will be used in 2025 to fund equipment for a new rehabilitation facility. Candidates were told that the client would like the investment return to cover the rehabilitation facility's budgeted marketing costs of $70,000 for its first year of operations. Appendix I provided details on four investment options. To demonstrate competence, candidates were expected to provide a reasonable analysis of the investment options in the context of the Centre's needs. Candidates were expected to consider the most important variables for making the investment decision, including the risk, the return compared to the $70,000 requirement, and the accessibility of funds when needed in 2025.

Candidates performed adequately on this AO. Candidates were generally able to provide a satisfactory breadth of analysis, as they attempted to address multiple investment options as well as multiple decision criteria, such as risk, return, and accessibility of funds. However, candidates did not always achieve sufficient depth in their discussions, particularly those related to investment risk, where they often failed to support or explain the risk level they assigned to each option. For example, many candidates stated that the GIC was a safe option, without further explanation. Most candidates identified and considered the key decision criteria when analyzing the options, including the need to earn $70,000 of investment income over two years, and the need to have access to the funds in two years in order to buy equipment. Most candidates recognized that the three-year GIC option would not meet the Centre's need to access the funds in two years.

Strong candidates provided a thorough analysis across the four options and the main decision criteria. These candidates provided good depth in their analysis of the options, including an explanation for the risk level they assigned to each option. Strong candidates were able to accurately interpret case facts and integrate these into both their qualitative and quantitative analysis of the options. These candidates accurately calculated the expected two-year returns under each option, and directly compared those figures to the $70,000 goal.

Weak candidates addressed only a few of the investment options and generally did not identify all relevant decision criteria, most frequently failing to discuss the accessibility of the funds under the various options. Weak candidates sometimes attempted to discuss risk and return but their discussions lacked depth. In their risk assessment, many weak candidates failed to explain the risk levels they assigned to the options, simply noting them as high, moderate, or low risk. For example, many weak candidates stated that the managed equity mutual fund is high risk, without explaining that market volatility could impact earned returns or the preservation of capital. When calculating returns, some weak candidates misinterpreted case facts and failed to recognize that the Centre had two years in which to earn the required $70,000 return. As a result, these candidates performed only a one-year calculation of investment income, resulting in an incorrect conclusion that none of the options would meet the Centre's goal. Other weak candidates did not identify the $70,000 goal in their analysis of investment returns, and some did not calculate returns at all, instead simply comparing the rates of return provided in the case.

AO#3 (Financing options) (Fin)

Candidates were asked to analyze financing options for a new ambulance, and to recommend one. Appendix II provided information regarding the ambulance and details on three financing options, including two short-term loans and a lease. To demonstrate competence, candidates were expected to provide both a quantitative and qualitative analysis of the available options, and provide a supported recommendation on which financing option to choose.

Candidates struggled with this AO. Most candidates provided satisfactory breadth and depth of analysis on the qualitative considerations when comparing the financing options, but struggled to provide a relevant or reasonable quantitative comparison of the options. The most common qualitative points discussed were the security required for the loans, the need for board approval if annual payments are over $60,000, the risk related to the variable rate on the three-year loan, and the lease's alignment with the Centre's vision, given that the ambulance will be sold to a developing country at the end of the lease term. Most candidates identified a few qualitative points and provided sufficient depth in their discussions by explaining why these factors were important to the decision, and how they could impact the Centre. Candidates performed poorly on the quantitative comparison of the options, struggling to identify a valid quantitative tool for the analysis, or making several conceptual errors in applying a selected tool. The best approach was to determine the rate implicit in the five-year loan and lease options, and compare those rates to the stated rate on the three-year loan, but candidates did not generally choose this approach. Most candidates applied other valid approaches; however, many simply calculated the total payments over the term of the loans and lease, ignoring the time value of money in a situation where the timing of payments varied between the options. Even when candidates did choose a valid quantitative tool for their analysis, many made conceptual errors in their calculation. For example, many candidates failed to recognize that the monthly payment on the three-year loan was only the principal amount, and therefore did not incorporate the cost of interest in their calculation. Few candidates considered the need to build two five-year lease terms into their calculations in order to reflect the Centre's plans to keep the ambulance for ten years. Despite difficulties with the quantitative analysis, candidates did generally provide a supported conclusion on which option was best for the Centre.

Strong candidates discussed several of the qualitative points by integrating information presented in the case, and clearly explaining how they could be advantageous or disadvantageous for the Centre. Strong candidates showed a good understanding of finance concepts by using either the implicit interest rate or present value approach, and they performed the calculations with reasonable accuracy. These candidates directly commented on which option was better, based on their quantitative analysis, instead of leaving it up to the client to interpret their calculations.

Weak candidates lacked breadth and depth in their qualitative analysis of the options, either attempting to discuss only one or two considerations, or restating case facts without explaining why they should be considered in the decision. For example, candidates noted the required security on the loans as a disadvantage, without explaining that this puts the Centre at risk of losing the ambulance in the event of default on the three-year loan, or of losing all assets in the event of default on the five-year loan. Weak candidates performed either no quantitative analysis, or a poor analysis. For example, some of these candidates only compared the total annual or monthly payments, failing to recognize that this was not an appropriate basis for comparing the options, as the loans and lease had differing terms. Other weak candidates did not use a consistent approach to compare the options, for example, calculating the net present value or interest rate for one option, and totalling the payments required on another option. Most of the weak candidates who used a valid approach made numerous or significant errors in their calculations. Some weak candidates failed to provide a conclusion on which option was best for the Centre.

AO#4 (Control weaknesses) (Assu)

Candidates were asked to discuss any control weaknesses they identify, and recommend improvements. Information regarding the current accounting department was provided on the first page of the case, while Appendix III outlined the Centre's main processes. To demonstrate competence, candidates were required to identify some of the control weaknesses, explain their implications, and provide recommendations for improvement.

Candidates performed adequately on this AO. They were able to demonstrate breadth by identifying some of the control weaknesses, recognizing the implication of those weaknesses on the Centre, and discussing improvements that the Centre could implement. Candidates typically addressed this AO by applying a weakness, implication, recommendation structure, which was effective in this case. Candidates most commonly addressed the lack of review of supplier payments, the inadequate time sheet approval, the lack of support for credit card purchases under $1,000, and the lack of review of the bank reconciliations. While candidates attempted to discuss some of the identified weaknesses, some had difficulty providing clear implications, and many struggled to provide practical recommendations. For example, in relation to time sheet approval, some candidates recommended that Tamar or Yan approve the timesheets instead of Neesha. As there was no indication that Tamar or Yan would have better knowledge than Neesha of the hours worked by employees, this was not a valid recommendation.

Strong candidates discussed several control weaknesses, clearly explaining the implications of the control weaknesses to the Centre, and then providing specific and practical recommendations for addressing those weaknesses. Strong candidates provided a complete explanation of the implications, that incorporated specific case facts. For example, instead of simply noting that fraud could occur because supplier payments are not reviewed, strong candidates further explained that fraud could occur because no one is checking the name of the supplier or verifying the payment against supporting documents such as invoices or receiving reports, allowing Yan to pay himself or create fictitious suppliers. Strong candidates also provided specific recommendations that were relevant and practical in the scenario presented. For example, instead of only suggesting that time sheets be approved, many strong candidates recommended that the department managers approve them before they are sent to Neesha, as they control the schedule and are aware of the actual hours worked.

Weak candidates often did not sufficiently explain the implications for the weakness identified, or struggled to provide an appropriate implication, as they did not seem to have a good understanding of the weakness they were discussing. For example, some candidates discussed segregation of duties concerns with regard to Neesha's tasks, suggesting that fraud could occur, but Neesha's specific duties did not present significant potential for fraud. Some weak candidates struggled to provide the appropriate recommendation for the weakness identified. For example, they would recognize that Neesha was performing many duties and that she was not qualified, but recommended hiring a CFO, which the case facts had already indicated was in progress.

AO#5 (Cost allocations) (Mgmt Acct)

Candidates were asked to perform the allocation of the common costs for the first quarter, in the way they considered the most appropriate. The client also mentioned that she was unsure of which basis to use for the allocation, and that she wonders if she should use the departmental payroll costs as a basis, since she has easy access to that information. Appendix IV provided first-quarter information for three common cost centres and four operating departments. To demonstrate competence, candidates were expected to correctly identify some of the correct cost drivers, and accurately allocate the common costs across departments.

Candidates performed well on this AO. Most candidates were able to correctly identify some of the relevant drivers for the common costs. The most common driver correctly identified by candidates was the number of meals to be used in allocating the kitchen costs. Most candidates performed an allocation of these common costs to the departments presented. Candidates struggled a bit more when analyzing the drivers for the IT support costs and the cleaning costs, often identifying only a part of the driver in these cases. For example, the Centre's cleaning costs were driven by a combination of the number of cleanings per day for a particular department and the number of hours per cleaning in that department. Therefore, these drivers should have been combined. Instead, some candidates used only the number of cleanings per day or the number of hours per cleaning, resulting in an inaccurate allocation of the cleaning costs. Few candidates responded to Neesha's question about whether she should use payroll costs as the basis for allocating the common costs, and if they did, they generally informed her only that payroll was not a good driver for these costs, without explaining why.

Strong candidates correctly identified most of the cost drivers and correctly performed the allocation of the three common costs to the departments. Some strong candidates also provided Neesha with an explanation of why she should not use payroll costs as the basis for the allocation, often using case facts to explain why it wasn't a good driver, such as the fact that the family health department would be charged for the cost of the meals, when no meals were delivered to their patients.

Weak candidates usually did not correctly identify relevant drivers of the common costs and often used the same inappropriate driver for all three costs, such as payroll costs, departmental revenue, or square footage. A few weak candidates identified some drivers for the common costs but did not perform any calculations to allocate the common costs to the departments.

AO#6 (Key performance indicators – KPIs) (Strat & Gov)

Candidates were asked to recommend and explain key performance indicators (KPIs) that could be used to measure the performance of the Urgent Care department and the Family Health department. They were further asked to suggest actions that these departments could take to improve their performance on the recommended KPIs. The first page of the case provided information on the Centre's mission and vision, while Appendix IV provided statistics on each department that could be used to inform the KPI discussion. To demonstrate competence, candidates were expected to suggest a reasonable number of relevant KPIs, and provide specific actions that the Centre could take, to improve performance on those KPIs.

Candidates struggled with this AO. They generally suggested some KPIs, but often, these KPIs were not relevant or useful, given the scenario presented. Most candidates did not seem to recognize that KPIs should be tied to areas that the Centre would want to perform well in, for example, to the goals outlined in the Centre's vision and mission statements. The most commonly suggested KPIs were related to wait time, overtime hours, sick time, and training hours. Most candidates provided minimal depth in their discussions, suggesting a KPI without explaining the specific measure, or why it would be useful for measuring the Centre's performance. For example, some candidates suggested the number of patients seen per doctor as a KPI, without explaining that this would help the Centre measure whether they are optimizing and using their resources efficiently. Candidates attempted even fewer actions for improving the Centre's performance on those KPIs. When they did, the actions were generally vague and not well explained, for example, suggesting that the Centre encourage employees to reduce wait time, or ensuring that staff are trained, without providing a specific action for accomplishing this.

Strong candidates provided more relevant KPIs, and directly linked each of these to individual points within the mission and vision of the Centre. For example, they would suggest using the average number of hours each patient waits as a KPI, which was related to the Centre's vision of creating a positive experience for patients and providing quality and compassionate care. These strong candidates suggested KPIs that were specific, useful, and measurable. Strong candidates also provided actions for improving performance, and those actions were clear and specific. For example, they would recommend setting specific goals to reduce patient wait time, through more efficient scheduling of staff.

Weak candidates provided few KPIs and actions for improving performance, or provided KPIs that were not relevant in the scenario presented. For example, many weak candidates suggested KPIs linked to profitability, which were not particularly useful in the not-for-profit setting. Other weak candidates used the information provided in Appendix IV as the source of possible KPIs, and many of these were not relevant as key performance areas, such as the number of hours per cleaning. Weak candidates seemed to struggle with the concept of KPIs in general, and sometimes provided a generic discussion without identifying a specific KPI. For example, they discussed how it would be beneficial for the Centre to reduce overtime, without identifying that hours of overtime would provide a KPI, against which they could measure their performance.

Paper/Simulation:	**Day 3, Case 3 (Winnington)**
Estimated time to complete:	85 minutes
Simulation difficulty:	Average to Hard
Competency Map coverage:	Finance (1); Management Accounting (1); Taxation (1); Strategy and Governance (1); Financial Reporting (1); Assurance (1)

Evaluators' comments by Assessment Opportunity (AO)

AO#1 (Upgrade options) (Fin)

Candidates were provided with information on four potential upgrades that Winnington was considering, and asked to recommend which upgrade(s) should be pursued, given the $300,000 budget available and a hurdle rate of 10%. Details of the four upgrade options were provided in Appendix II. Additional background on Winnington's operations, including seasonal considerations, the gross margin of existing rental activities, and the impact of renovations currently underway, was provided in Appendix I. To demonstrate competence, candidates were expected to analyze most of the options using a valid approach, compare the options on a consistent basis, and recommend which option(s) to pursue.

Candidates struggled with this AO. Most candidates attempted to analyze all of the options; however their analyses often contained errors or inconsistencies. Candidates took a variety of approaches to evaluate the investment opportunities and determine whether the proposed projects would meet Winnington's desired rate of return, but sometimes the approaches were invalid or inconsistent for the different upgrade options. Candidates generally provided a reasonable calculation of the net cash flows associated with the various upgrades, although they sometimes struggled with the more complex options. For example, the pool option required candidates to use information from another appendix in the case, to calculate the summer rental revenue increase, and many candidates failed to incorporate this information in their calculation. The café was the only option with inconsistent annual cash flows over the 15-year project life, so candidates sometimes struggled to make their calculations of this option comparable to the other options. Most candidates accurately assessed the quantitative impact of the wine tasting room, as no adjustments were required to the annual profit provided in the case. Only a few candidates provided a qualitative analysis of the options. Where qualitative discussions were attempted, most were just narrative descriptions of the quantitative points already factored into the calculations, for example, the fact that certain options only generated revenue in the summer months. Almost all candidates provided a valid recommendation consistent with their calculations, suggesting that Winnington pursue those options that met its required hurdle rate.

Strong candidates were able to incorporate several adjustments into their cash flow calculations for most options, and to apply a consistent and valid approach in order to compare the options and make a recommendation to Winnington. These candidates typically demonstrated a better technical understanding of the best tools for evaluating the upgrade options, more frequently using those that incorporated the time value of money, such as net present value, internal rate of return, or less commonly, profitability index calculations. While still rare, strong candidates were better able to provide relevant qualitative discussions, for example, explaining that the extra seating capacity on the patio could help address the wait list issue on busy nights. Strong candidates were also more likely to consider Winnington's budget constraint and recommend options that would fit within the $300,000 available, and a few even recognized that two of the options, the patio and the pool, were mutually exclusive because they used the same space.

Weak candidates incorporated fewer elements into their quantitative analysis of the options, or incorrectly calculated these elements, particularly for the patio and pool options. For example, many weak candidates included all revenues from Winnington's existing rental or restaurant operations, rather than the incremental increase due to the proposed upgrades. Weak candidates also struggled with the revenue seasonality adjustments for the patio and pool options, often confusing the two or simply estimating the seasonal impact rather than using the case facts provided. Weak candidates were also more likely to apply invalid approaches that would not be useful in assessing the options, for example, not considering the full life of the upgrades or examining cash flows for the first year only. Weak candidates frequently used inconsistent approaches for the options assessed, for example, mixing the use of payback, return on investment, and net present value calculations.

AO#2 (Info system data collection) (Mgmt Acct)

Candidates were asked to help the new restaurant manager address issues he is running into. In Appendix III, candidates were presented with a list of data collected by the restaurant sales system, and a description of various operational issues related to staff scheduling, server performance, inventory management, and wait lists. Candidates were asked how to use the current data, and what other data could be useful to collect in order to address these issues. To demonstrate competence, candidates were expected to explain to Felix how to analyze the data that the restaurant sales system collects, to resolve the issues he identified, and to provide suggestions for other data that would be useful to collect.

Candidates performed adequately on this AO. Most candidates attempted to address some of the issues presented in the case. However, they sometimes had difficulty integrating relevant data points from the sales system into their recommendations, or were not able to clearly explain which data points Felix should use to resolve the issues. For example, candidates would suggest that Felix use the data to determine which times are busiest, without specifying which data fields would be useful for this analysis. Many candidates provided a reasonable discussion regarding server scheduling and inventory management, both of which had several data points that could be used, for example, to determine how many customers the restaurant would have on a given night or how frequently menu items are ordered. However, candidates struggled with the coupon issue, suggesting that the coupon be moved to another night without considering the use of data to determine which night would most benefit from a larger number of customers. Some candidates also provided suggestions for other data to collect, usually to help resolve the server scheduling and server performance issues, suggesting, for example, asking the servers how many tables they can handle at a time, or getting customers to provide performance evaluations for their servers through a customer survey.

Strong candidates provided in-depth discussions about how to use the data by clearly describing the data points they would use, and explaining how the data would help solve the problem. For example, strong candidates often suggested using the item and date data points from the sales system to determine how popular a menu item has historically been, and to remove the least popular items on the menu, to limit food waste. Strong candidates also tended to more frequently consider whether there was other data that should be collected in order to help resolve the issues, such as collecting information on server tips, to evaluate who the best performers are.

Weak candidates consistently failed to use specific sales system data points to help Felix resolve the issues. When they did try to reference specific data points, they struggled to use the data in a helpful way. For example, they would suggest that Felix look at the pre-tax sales amounts on Fridays to determine if that was the best day for the coupon. However, Felix was already aware that Friday is the busiest night of the week, so getting further information on Friday sales volumes would not help him determine if Friday is a good night to attract additional business. Weak candidates struggled to link their suggestions to the key problems Felix was having, suggesting to track inventory levels simply to know what items are on hand, or to gather reservation data to prevent waitlists. Many weak candidates limited their discussion to non-data recommendations only, such as moving the coupon to another night, or watching servers to assess their performance. While these types of recommendations provided some value to Felix, they did not address the explicit request for an analysis, using the data available.

AO#3 (CRA Reassessment and acquisition of control) (Tax)

Candidates were asked to explain the tax implications of the acquisition of control, and were also provided with the details of a discussion between the operations manager and other staff, and asked whether the company was liable if the Canada Revenue Agency (CRA) discovers the things mentioned in the discussion, and how far back they could look. Details of the discussion were provided in Appendix IV. Appendix V contained information on the non-capital loss carryforwards. To demonstrate competence, candidates were expected to discuss both the implications of a CRA reassessment, were one to occur, as well as the tax implications of the acquisition of control.

Candidates struggled with this AO. Most candidates were able to adequately address the CRA reassessment issue, but had difficulty identifying the implications associated with the acquisition of control. In discussing the CRA reassessment, candidates typically focused on the disallowed personal expenses, and the interest and penalties that would apply due to the inaccurate tax filings. Many candidates also stated that Paradise would be liable, in direct response to Bhavna's question; however, most were unable to explain why it would be liable. Very few candidates were able to provide the correct CRA reassessment time limit of three years; however, some understood that cases of tax evasion or other misrepresentation were exempt from the time limit. In relation to the acquisition of control, while many candidates were able to identify that Winnington would have a deemed year end immediately before the acquisition, most candidates were unable to accurately explain any other acquisition of control implications, demonstrating little breadth of knowledge in this area.

Strong candidates were able to clearly explain why the deduction of personal expenses and remuneration to family above market rates would be an issue, and discuss some aspects of the acquisition of control. These candidates were more likely to understand, and explain, why Paradise would be liable for past taxes (for example, because they purchased the shares of the business and therefore all of its liabilities), and to provide advice to Winnington on use of the voluntary disclosure program, to receive leniency from CRA. They were also more likely to accurately discuss the reassessment period. These candidates generally had a good understanding of the implications of the acquisition of control, going beyond identifying the deemed year end to also discuss topics such as the expiry of net capital losses and the availability of non-capital losses. Strong candidates were also more likely to recognize that Winnington's small business deduction would be impacted, since it would now be associated with Paradise.

Weak candidates typically attempted only a few discussions, limiting these to brief discussions about personal expenses or penalties and interest. Some weak candidates attempted to identify the reassessment period, but provided technically incorrect discussions, most often getting the reassessment period wrong, or not picking up on the fact that there was no limit in the reassessment period in cases of tax evasion or other misrepresentation. Weak candidates were also more likely to provide inaccurate technical knowledge in other areas as well, for example, concluding that non-capital losses could not be carried forward under any circumstances. Some weak candidates failed to discuss acquisition of control in the tax context at all, instead focusing on the financial reporting implications of a business combination.

AO#4 (Governance structure and staff concerns) (Strat & Gov)

Candidates were asked to provide advice regarding whether to keep the previous owner (Jakob) on as a manager at Winnington, what type of governance structure to establish in order to ensure adequate oversight, and how to ease staff concerns related to the acquisition. The first page of the case and Appendix IV provided information regarding Jakob's questionable management decisions, and the current governance structure at Winnington. Appendix IV also provided excerpts from discussions with staff outlining their specific concerns regarding the acquisition. To demonstrate competence, candidates were expected to provide some valid discussions on several areas, using case facts to support their recommendations.

Candidates performed well on this AO. Most candidates attempted to address each component of the client's request, showing good breadth in their response. Almost all candidates provided a good discussion regarding Jakob's management practices, focusing on his ethics and whether his values aligned with those of Paradise, and provided a recommendation on whether to keep or replace him. Candidates typically addressed staff concerns, usually by recommending that training be offered to staff in response to changing systems and job requirements. However, candidates tended to focus on the very specific issues brought up by each staff member, which often made it difficult for them to recommend other broad changes or actions that should be implemented. For example, candidates would recommend telling the senior accountant they would be trained on the new accounting software, rather than recommending that Winnington assess the training needs of all staff, and factor it into an overall transition plan. Governance issues were addressed less frequently than the other topics. Those who did address Bhavna's question about governance structure typically recommended that a Board of Directors be established at Winnington, with little further discussion of how that board would allow for adequate oversight.

Strong candidates were able to clearly articulate how Jakob's actions would negatively impact Paradise, and concluded that he should not be retained. They also consistently recognized that Winnington did not currently have any formal governance structure, and recommended that a board be created, providing a good discussion regarding the role that a board would play. Further, strong candidates addressed the staff concerns in an appropriate context, with a good understanding of their role, looking at the issues from a high-level perspective rather than limiting their discussions to the individual issues presented in the case. For example, these candidates focused on how to communicate changes to all Winnington staff, and recommended policies to put in place to prevent the ethical issues that occurred under previous management, such as a code of conduct or whistleblower policy.

Weak candidates struggled in all areas. They failed to provide adequate depth in their discussions about Jakob's management practices, often simply stating case facts without addressing the implications of those facts. For example, they would simply state that Jakob put personal items through as business expenses without explaining the ethical concerns raised by this behavior. Weak candidates were also not able to properly address the staff concerns. Many weak candidates recommended that specific employees be told there will be no terminations, rather than providing suggestions on how to realistically ease the transition for all staff. These candidates lost sight of their role, failing to recognize that severance decisions would need more careful consideration, and would most likely be made by senior staff. Most weak candidates ignored the request to discuss the governance structure, and those who did attempt to address it often focused on the organizational structure, for example, recommending that it be decentralized rather than centralized.

AO#5 (Accounting adjustments – ASPE to IFRS) (Fin Rep)

Candidates were advised that Winnington followed ASPE but will now have to report under IFRS for consolidation purposes, and were asked to explain the differences between ASPE and IFRS for property, plant, and equipment, taxes, and for its lease. Candidates were instructed to ignore IFRS 1 for the purpose of this report. Appendix V provided excerpts from Winnington's ASPE-compliant financial statements, and notes regarding its operating lease for a boat, its use of the taxes payable method, its current tax rate, and details of its non-capital loss carryforward balances. To demonstrate competence, candidates were expected to identify and explain some of the differences between ASPE and IFRS for the financial reporting areas in question.

Candidates struggled with this AO. Most candidates were able to identify some of the more significant differences for the accounts specified in the required, most commonly, those related to property, plant, and equipment and leases. These candidates would state the significant difference, for example, the accounting policy choice between cost model and revaluation model for subsequent recognition of property, plant, and equipment under IFRS versus ASPE, which requires the cost model, but many struggled to go beyond identification of this difference. Many candidates focused on describing the IFRS treatment, and only briefly, if at all, mentioning how this was different from ASPE. Some candidates went further to explain how these differences would affect the accounting treatment going forward, for example, explaining that, if the revaluation method was selected, assets would be periodically revalued to fair value, but relatively few discussed how this would be relevant to Winnington.

Strong candidates identified significant differences for all accounts, and were able to explain the differences in some depth. Some strong candidates used case facts to support their discussion, generally explaining how Winnington's tax loss carryforwards would generate a deferred tax asset under IFRS, or recognizing that its boat lease, treated as an operating lease under ASPE, would likely need to be recorded as a right-of-use asset under IFRS.

Weak candidates did not demonstrate the technical knowledge needed to identify the significant differences in the three financial reporting areas, and instead focused on presentation differences, or differences that would have very minimal impact on Winnington. For example, many weak candidates discussed differences for the lessor with respect to leases, when Winnington was the lessee, as described in the notes to the financial statements. Many weak candidates also described differences regarding asset impairment or componentization with respect to property, plant, and equipment, when there were more significant differences to be discussed. Weak candidates often did not attempt to identify differences on more than one of the financial reporting topics, and frequently incorrectly concluded that there was no difference between ASPE and IFRS for the topic in question.

AO#6 (Review procedures) (Assu)

Candidates were asked to draft a list of review procedures that the practitioner will likely perform on Winnington's income statement for the two-month period after acquisition. The income statement from the previous year was included in Appendix V, providing the candidates with many possible accounts for which they could provide procedures. To demonstrate competence, candidates were expected to provide some valid procedures on the income statement.

Candidates struggled with this AO. Most candidates were able to suggest some procedures; however, many of the suggested procedures were too general, incomplete, or not useful in assessing the underlying account. Most candidates were only able to provide a few valid procedures, most commonly in the areas of revenue and depreciation. Candidates had difficulty providing procedures that were appropriate for a review, and many suggested audit procedures instead.

Strong candidates were able to suggest many procedures that were specific, complete, and clear as to their purpose. Strong candidates recognized the difference between review procedures and audit procedures, and provided procedures based on inquiry and discussion, as well as analytical procedures. For example, for the rental or restaurant revenue, many strong candidates suggested comparing the revenue of February and March of the last period with the same months in the current period (as the current period was only two months long).

Weak candidates provided fewer procedures, and those they did suggest were typically incomplete, vague, not useful in assessing the underlying account, or very general. For example, many weak candidates suggested inquiring whether all revenue and expenses were recorded properly, instead of focusing on specific accounts. Many weak candidates also provided procedures over the balance sheet, rather than the income statement as requested. Some weak candidates did not understand that they were in a review context at all, providing only audit procedures for all accounts they attempted to discuss.

APPENDIX G

CPA COMMON FINAL EXAMINATION REFERENCE SCHEDULE

CPA COMMON FINAL EXAMINATION REFERENCE SCHEDULE

Present Value of Tax Shield for Amortizable Assets

Present value of total tax shield from CCA for a new asset acquired after November 20, 2018, and before January 1, 2024, other than those eligible for immediate expensing.

$$= \frac{CdT}{(d+k)}\left(\frac{1+1.5k}{1+k}\right)$$

Notation for above formula:
C = net initial investment
T = corporate tax rate
k = discount rate or time value of money
d = maximum rate of capital cost allowance

Selected Prescribed Automobile Amounts

Item	2022	2023
Maximum depreciable cost — Class 10.1	$34,000 + sales tax	$36,000 + sales tax
Maximum depreciable cost — Class 54	$59,000 + sales tax	$61,000 + sales tax
Maximum monthly deductible lease cost	$900 + sales tax	$950 + sales tax
Maximum monthly deductible interest cost	$300	$300
Operating cost benefit — employee	29¢ per km of personal use	33¢ per km of personal use
Non-taxable automobile allowance rates		
— first 5,000 kilometres	61¢ per km	68¢ per km
— balance	55¢ per km	62¢ per km

Individual Federal Income Tax Rates

For 2022:

If taxable income is between	Tax on base amount	Tax on excess
$0 and $50,197	$0	15%
$50,198 and $100,392	$7,530	20.5%
$100,393 and $155,625	$17,820	26%
$155,626 and $221,708	$32,180	29%
$221,709 and any amount	$51,344	33%

For 2023:

If taxable income is between	Tax on base amount	Tax on excess
$0 and $53,359	$0	15%
$53,360 and $106,717	$8,004	20.5%
$106,718 and $165,430	$18,942	26%
$165,431 and $235,675	$34,208	29%
$235,676 and any amount	$54,579	33%

Selected indexed amounts for purposes of computing income tax

Personal tax credits are a maximum of 15% of the following amounts:

Item	2022	2023
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is greater than or equal to the amount at which the 33% tax bracket begins	$12,719	$13,521
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is less than or equal to the amount at which the 29% tax bracket begins	14,398	15,000
Age amount if 65 or over in the year	7,898	8,396
Net income threshold for age amount	39,826	42,335
Canada employment amount	1,287	1,368
Disability amount	8,870	9,428
Canada caregiver amount for children under age 18, and addition to spouse, common-law partner, or eligible dependant amount with respect to the Canada caregiver amount	2,350	2,499
Canada caregiver amount for other infirm dependants age 18 or older (maximum amount)	7,525	7,999
Net income threshold for Canada caregiver amount	17,670	18,783
Adoption expense credit limit	17,131	18,210

Other indexed amounts are as follows:

Item	2022	2023
Medical expense tax credit — 3% of net income ceiling	$2,479	$2,635
Old age security repayment threshold	81,761	86,912
Annual TFSA dollar limit	6,000	6,500
RRSP dollar limit	29,210	30,780
Lifetime capital gains exemption on qualified small business corporation shares	913,630	971,190

Prescribed interest rates (base rates)

Year	Jan. 1 – Mar. 31	Apr. 1 – June 30	July 1 – Sep. 30	Oct. 1 – Dec. 31
2023	4	5	5	
2022	1	1	2	3
2021	1	1	1	1

This is the rate used for taxable benefits for employees and shareholders, low-interest loans, and other related-party transactions. The rate is 4 percentage points higher for late or deficient income tax payments and unremitted withholdings. The rate is 2 percentage points higher for tax refunds to taxpayers, with the exception of corporations, for which the base rate is used.

Maximum capital cost allowance rates for selected classes

Class	Rate	Additional information
Class 1	4%	For all buildings except those below
Class 1	6%	For buildings acquired for first use after March 18, 2007, and ≥ 90% of the square footage is used for non-residential activities
Class 1	10%	For buildings acquired for first use after March 18, 2007, and ≥ 90% of the square footage is used for manufacturing and processing activities
Class 8	20%	
Class 10	30%	
Class 10.1	30%	
Class 12	100%	
Class 13	N/A	Straight line over original lease period plus one renewal period (minimum 5 years and maximum 40 years)
Class 14	N/A	Straight line over length of life of property
Class 14.1	5%	For property acquired after December 31, 2016
Class 17	8%	
Class 29	50%	Straight-line
Class 43	30%	
Class 44	25%	
Class 45	45%	
Class 50	55%	
Class 53	50%	
Class 54	30%	

The CPA certification program prepares future CPAs to meet the challenges that await them. For more information on the qualification process, the common final examination (CFE), and the specific education requirements for your jurisdiction, contact your provincial/regional CPA body.

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