1. Management of Claw Games Co. (Claw) performed a risk assessment to determine whether the going-concern basis of accounting is appropriate for the preparation of its financial statements. The following points were included in management's risk assessment:

- Claw is in a healthy financial position overall, with positive operating cash flows and a net asset position.
- The company has lost some market share in the last year, and two major retail customers have recently provided notice that they are terminating their contracts with Claw.
- Claw's manufacturing employees have just joined a local union, and wages are expected to rise over the next several years.
- There are three outstanding lawsuits from customers, with an average expected settlement of $100,000 each.
- Overall, management has determined that the going-concern basis is appropriate.
  Claw's auditor is reviewing management's assessment as part of the audit planning process.

Which one of the following actions is MOST appropriate for the auditor to take next?

a) Ask management to re-present the financial statements on a liquidation basis.

b) Document management's assessment and conclude that the going-concern basis is appropriate for Claw's financial statements.

c) Ask management to provide a cash flow projection for at least the next 12 months from the date of the financial statements.

d) Consider the impact on the auditor's report.

The correct answer is:
c) Ask management to provide a cash flow projection for at least the next 12 months from the date of the financial statements.
Explanation:
Under **IAS 1** (IFRS) and **CAS 570** (Canadian Auditing Standard), management must assess the entity's ability to continue as a going concern for **at least 12 months from the reporting date**.
Although Claw is currently in a healthy financial position, there are **potential indicators of financial stress**:

- Loss of market share
- Termination of two major customer contracts
- Expected increase in wage costs due to unionization
- Three outstanding lawsuits with material expected settlements

These factors may create **material uncertainty**, so the auditor cannot simply accept management's conclusion.

2. Which one of the following statements about the audit of crypto-assets is true?
   Question 2 options:

   a) Crypto-assets are very similar to investments, and are audited in the same way.

   b) Crypto-assets are not a currency, so there are limited auditing requirements.

   c) The CPA Canada Handbook — Assurance includes a specific standard on how to audit crypto-assets.

   d) Only auditors with an understanding of how crypto-assets work should accept engagements that include the audit of these assets.

The correct answer is:
d) Only auditors with an understanding of how crypto-assets work should accept engagements that include the audit of these assets.
Explanation:
Crypto-assets (e.g., Bitcoin, Ethereum) present **unique audit risks**, including:

- Ownership and control tied to private keys
- Existence verification through blockchain
- Custody risks (hot vs. cold wallets)
- Valuation volatility
- Regulatory uncertainty

Under **CAS 220** and **CAS 315**, auditors must have **sufficient competence and capabilities** to accept and perform an audit engagement. If they do not understand how crypto-assets function, they may not be able to properly assess risks or gather sufficient appropriate audit evidence.

Aimee, an audit partner at P&L CPAs, is determining whether to accept a new client, Dino Refrigeration (Dino). Dino has been audited in the past, but is looking for a new auditor. As part of the client acceptance process, Aimee is determining whether Dino's management has high integrity.

3. Which one of the following activities could Aimee perform to BEST satisfy herself of management's integrity?

Question 3 options:

a) Communicate with the prior auditor about whether there is any reason for P&L not to accept the engagement.

b) Ask Dino's management about its reputation and how co-operative it has been with auditors in the past.

c) Talk to lower-level employees at Dino about how management treats them.

d) Ask management to sign a letter indicating that it will act with integrity at all times.

The correct answer is:
a) Communicate with the prior auditor about whether there is any reason for P&L not to accept the engagement.
Explanation:
During client acceptance, assessing **management integrity** is critical under **CAS 220** and ethical requirements in the CPA Canada Handbook.
One of the **most reliable sources of information** about management integrity is the **predecessor auditor**. Professional standards require:

- Obtaining client permission to communicate with the prior auditor
- Asking whether there were disagreements with management
- Inquiring about unpaid fees, scope limitations, or integrity concerns

The prior auditor can provide candid insight that management may not disclose.

4. In preparing for the audit of Saskatoon Pet Supplies (Saskatoon), a chain of pet stores, which one of the following factors identified by the audit senior during planning decreases the risk of material misstatement at the overall financial statement level (OFSL)?

Question 4 options:

a) The pet supplies market is highly competitive.

b) Saskatoon had a loss last year and is projecting another loss this year.

c) Saskatoon has no specific store policies, and each store's manager is responsible for ensuring employees are trained properly.

d) Saskatoon is a private company with a single owner.

The correct answer is:
d) Saskatoon is a private company with a single owner.
At the **overall financial statement level (OFSL)**, auditors assess factors that increase or decrease the **risk of material misstatement (RMM)** under **CAS 315**.
Let's evaluate each option:
a) Highly competitive market
This **increases** risk. Competitive pressure may create incentives to manipulate financial results.
b) Consecutive losses
Also **increases** risk. Ongoing losses create pressure to overstate revenues or understate expenses.
c) No standardized store policies
This **increases** control risk. Weak internal controls at multiple locations heighten the risk of misstatement.
d) Private company with a single owner

This generally **decreases OFSL risk** because:

- There is typically less pressure to meet external reporting expectations.
- There are fewer complex reporting requirements than publicly traded entities.
- Ownership and management may be closely aligned.

Although there can be some risks in owner-managed businesses (e.g., override), this option is the only one that could reasonably **reduce overall financial statement risk** compared to the others.

5. In preparing for the audit of Marshall Designs Inc. (MDI), which one of the following factors indicates that the auditor should use a substantive approach instead of a combined approach?

Question 5 options:

a) MDI's chief financial officer is a CPA.

b) MDI has several accounts with a high degree of estimation involved.

c) MDI has controls that can be relied on.

d) MDI has few transactions.

The correct answer is:
d) MDI has few transactions.
Explanation:
Under CAS/ISA, the auditor may choose between:

- **Combined approach** → Tests of controls **plus** substantive procedures (used when controls can be relied upon).
- **Substantive approach** → Primarily substantive testing, with little or no reliance on controls.

A **substantive approach** is appropriate when it is more efficient to directly test transactions and balances rather than test controls.
When an entity has **few transactions**, it is often **more efficient to perform substantive testing on all or most transactions** rather than spend time evaluating and testing internal controls. Therefore, reliance on controls is unnecessary.

6. Singular, a real estate investment trust, owns an investment in approximately 10 other trusts and corporations. All parties involved, including Singular, have the same asset manager. There are numerous transactions between Singular and these other entities, as well as the asset manager. The audit senior has been asked to document the audit team’s fraud assessment of Singular. Which one of the following is a responsibility of the audit team related to fraud?

Question 6 options:

a) Identify all related-party transactions as significant fraud risks, and design the audit approach to ensure the audit response adequately addresses those risks.

b) Gather evidence to be absolutely certain that Singular has identified, recorded, and disclosed its related-party transactions correctly.

c) Gather and present information on related-party transactions so that users of the financial statements can make their own assessment about whether there is any fraud.

d) Request more information to determine the nature of the relationship between the entities, so that potential fraud risk factors can be identified.

The correct answer is:
✅ **d) Request more information to determine the nature of the relationship between the entities, so that potential fraud risk factors can be identified.**

Explanation:
Under CAS 240 (fraud) and CAS 550 (related parties), the audit team must:

- Maintain professional skepticism

- Identify and assess fraud risk factors
- Understand related-party relationships and transactions
- Assess whether those relationships create a risk of material misstatement due to fraud

In this scenario, **multiple related entities with the same asset manager and numerous inter-entity transactions** create a heightened fraud risk. The auditor's responsibility is to **obtain an understanding of the relationships** so they can properly assess and respond to potential fraud risks.

7. An auditor is working on the audit engagement for a community shelter that is a not-for-profit organization. Most of the shelter's funding comes from the municipal government, and the government is a key user of the financial statements. Due to a recent accounting scandal, the municipal government is sensitive to misstatements. Which one of the following would be the MOST appropriate threshold and benchmark for the auditor's materiality determination?

Question 7 options:

a) 1% of expenses

b) 3% of equity

c) 3% of normalized income before taxes

d) 4% of total assets

To determine the **most appropriate threshold and benchmark** for planning materiality for a **not-for-profit** that is funded by the **municipal government** and whose statements are sensitive to misstatements:

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1. Benchmark considerations

For **not-for-profits**, common benchmarks are:

- Total expenses (or program expenses)
- Total revenues
- Net assets (equity for NFPOs)
- Total assets

But for an entity funded mostly by government grants, **the user's focus** is critical. Government users are interested in whether funds were spent properly (i.e., per grant agreements and regulations).

Expenses (or program expenses) are often the most relevant because they show how funds were used and whether spending was in compliance.

Given the government's sensitivity due to a recent scandal, they will be scrutinizing how the shelter **spent** funds, so materiality should relate to spending.

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2. Threshold

Materiality thresholds in NFPOs often use percentages like 1%–2% of total expenses or revenues. 1% of expenses is **more conservative** (lower materiality) than 3% or 4% of other bases, which aligns with the government's high sensitivity.

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3. Eliminating other options

- **b) 3% of equity** – Net assets/equity in an NFPO is often small or not a primary focus for government funders; they care about stewardship, not equity growth.
- **c) 3% of normalized income** – Not applicable because NFPOs don't focus on profit; income before taxes is irrelevant in this context.
- **d) 4% of total assets** – Assets may be large relative to expenses, but government funding bodies care more about expenses. Too high a percentage also might be less sensitive for the situation described.

Given **sensitivity**, 1% of expenses would be the most conservative and relevant.

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4. Most appropriate

a) 1% of expenses is:

- Appropriate for a not-for-profit focused on spending accountability.
- Conservative (meets government sensitivity).
- Focused on the user's (government) primary interest — proper use of funds.

8. As a result of a water leak during July, a portion of Xanthum Ltd.'s inventory was damaged. After assessing the damaged goods, the following values were determined on July 31:

Item	A	B	C
Units	5000	3000	2000
Cost per unit	25	35	80
Replacement cost per unit	26	32	78
Net realizable value (NRV) per unit	15	30	85

Xanthum prepares its financial statements in accordance with IFRS. Which one of the following represents the inventory value that should be reported on July 31?

Question 8 options:

a) $321,000

b) $325,000

c) $335,000

d) $377,000

Under **International Financial Reporting Standards (IFRS)**, inventory is measured at:
Lower of Cost and Net Realizable Value (LCNRV)
(NRV = estimated selling price less costs to complete and sell)
Replacement cost is **not used under IFRS** (that is relevant under ASPE).
Step 1: Apply LCNRV to each item
Item A

- Units: 5,000
- Cost = $25
- NRV = $15
- Lower amount = **$15**

Value = 5,000 × 15 = **$75,000**
Item B

- Units: 3,000
- Cost = $35
- NRV = $30
- Lower amount = **$30**

Value = 3,000 × 30 = **$90,000**
Item C

- Units: 2,000
- Cost = $80
- NRV = $85
- Lower amount = **$80** (cost is lower)

Value = 2,000 × 80 = **$160,000**
Step 2: Total inventory value
75,000

- 90,000
- 160,000
  = **$325,000**

Final Answer:
✅ **b) $325,000**

9. BC Resource Co. (BCR) began operating a copper mine on June 1 of the current year. Details are as follows:

BCR paid $1,200,000 for mining equipment.
BCR estimates that the equipment, which was brought into use when the mine opened on June 1, will last approximately 10 years, based on scheduled production, and will have a residual value of $80,000 once production is finished.
BCR depreciates its mining equipment using the units of production method.
BCR estimates that the equipment is capable of processing 500,000 ounces of copper. In the current year, the mine processed 27,000 ounces of copper.
BCR reports under IFRS and has a December 31 year end.
Which one of the following amounts should BCR report as depreciation expense related to the mining equipment for the current year ended December 31?

Solution:
Under **IAS 16 – Property, Plant and Equipment** (IFRS), when using the **units of production method**, depreciation is based on actual output relative to total estimated output.
Step 1: Calculate depreciable amount
Cost−Residual value
1,200,000 - 80,000 = 1,120,000

Step 2: Calculate depreciation rate per ounce
500,000 / 1,120,000 = 2.24
Step 3: Calculate current year depreciation
Mine processed 27,000 ounces:
27,000 x 2.24 = 60,480

Note: Because the units-of-production method is based on actual usage, **no time prorating is required**, even though operations began June 1.

10. Red Rocket Inc. had the following inventory transactions during the year:

	Transaction	Boxes	Cost per box
January 1	Opening balance	300	$9.00
February 10	Purchase	700	$6.75
March 20	Sale	500	
October 30	Purchase	100	$11.75
November 15	Sale	400	

In addition to the cost per box at purchase, Red Rocket adds a label to each box at a cost of $0.25. It also pays for shipping to the customer at a cost of $0.40 per box. Red Rocket has a December 31 year end and reports using ASPE.

Which one of the following amounts is the ending inventory balance using the FIFO (first in, first out) cost formula?

Solution:
Step 1 – Understand costs included in inventory under ASPE
Under ASPE, inventory cost includes:

- Purchase price
- Costs directly attributable to getting inventory to its present location and condition (e.g., labeling cost before sale, but NOT shipping to customer)

Given:

- Purchase cost per box (as in the table)
- Label cost $0.25 per box → added to inventory cost.
- Shipping to customer $0.40 per box → selling cost, **not** included in inventory (expensed when sale occurs).

So **inventory cost per box purchased** = cost in table + $0.25.

Step 2 – Convert table to include labeling

Date	Transaction	Boxes	Cost per box (given)	Cost + label	Total cost
Jan 1	Opening balance	300	$9.00	$9.25	$2,775
Feb 10	Purchase	700	$6.75	$7.00	$4,900
Oct 30	Purchase	100	$11.75	$12.00	$1,200

Total purchases:
Beginning 300 @ $9.25
Feb 700 @ $7.00
Oct 100 @ $12.00
Step 3 – Apply FIFO to calculate ending inventory
Sales:

- March 20: Sold 500 boxes
  First from Jan 1 (300 @ $9.25) → 300 remain 0
  Remaining 200 from Feb 10 batch (700 – 200 used for sale) → Feb now has 500 left
- Nov 15: Sold 400 boxes
  From Feb batch (500 left) → sell 400, left 100 from Feb
  Oct batch (100 @ $12.00) untouched

Ending inventory (in boxes):
From Feb: 100 @ $7.00
From Oct: 100 @ $12.00
Ending inventory $ value:
100 × $7.00 = $700
100 × $12.00 = $1,200
Total = **$1,900**

11. ZT Manufacturing Ltd. (ZTM) produces clothing for pets. The bestselling line is Polar Pet jackets, made exclusively using polar fleece. ZTM uses weighted average costing to value its inventory. The factory normally produces 180,000 units each year, of which 36,000 are jackets from the Polar Pet line.

Each Polar Pet jacket takes 0.5 metres of fleece to produce, costing on average $3.00 per metre, and 0.5 hours of labour, which costs $15 an hour. Annual thread and utility costs for the factory are $27,000, allocated annual amortization for the factory building and its equipment is $36,000 for the year, allocated annual administration costs are $18,000 per year for all products, and there is one quality control supervisor who spends all of their time on the Polar Pets line and earns $46,800 per year.

ZTM reports under ASPE.

Which one of the following is the cost of one Polar Pets jacket?

Solution:
Under **ASPE (Section 3031 – Inventories)**, the cost of inventory includes:

- Direct materials
- Direct labour
- Manufacturing overhead (both variable and fixed, allocated on a normal capacity basis)

Administrative expenses are **not included** in inventory cost unless directly attributable to production.

Step 1: Direct Costs per Jacket
Direct materials
0.5 metres × $3.00 = **$1.50**
Direct labour
0.5 hours × $15 = **$7.50**

Direct cost subtotal:
1.50 + 7.50 = 9.00

Step 2: Manufacturing Overhead

Factory normal production = 180,000 units
Polar Pet production = 36,000 units
Polar Pet represents:
36,000 ÷ 180,000 = 20%

(a) Thread & utilities

$27,000 × 20% = 5,400
Per jacket:
5,400 ÷ 36,000 = 0.15

(b) Amortization (factory building & equipment)

$36,000 × 20% = 7,200
Per jacket:
7,200 ÷ 36,000 = 0.20

(c) Quality control supervisor

Directly attributable to Polar Pets line:
46,800 ÷ 36,000 = 1.30

(d) Administration costs

$18,000 → **NOT included** (period cost under ASPE)

Step 3: Total Cost per Jacket

Component	Cost
Direct materials	1.50
Direct labour	7.50
Thread & utilities	0.15
Amortization	0.20
Quality control supervisor	1.30
Total	**10.65**