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**

12. Kando Corp. reports under IFRS and follows the proportional method for revaluation of its PP&E. On December 31, Year 7, Kando paid $200,000 for vacant land and elected to subsequently value it using the revaluation model. It is now December 31, Year 11. The following is a summary of the land's fair market values at Kando's intervening year ends:

December 31, Year 8	$170,000
December 31, Year 9	$195,000
December 31, Year 10	$190,000
December 31, Year 11	$240,000

Which one of the following represents how Kando should report the revaluation of the land on its December 31, Year 11, statement of comprehensive income?
Question 12 options:

a) Dr. Land 50,000
Cr. Gain on revaluation of land (profit or loss) 40,000
Cr. Gain on revaluation of land (OCI) 10,000

b) Dr. Land 50,000
Cr. Gain on revaluation of land (profit or loss) 10,000
Cr. Gain on revaluation of land (OCI) 50,000

Solution:

Step 1: Initial cost and changes in value

- Year 7: Purchase price **$200,000**
- Year 8: FMV $170,000 ⇒ decrease $30,000
  - Under IFRS, decrease first reduces any previous revaluation surplus related to that asset; if none (since first revaluation), goes to P&L (treated as impairment). So Year 8: P&L loss $30,000.
- Year 9: FMV $195,000 ⇒ increase $25,000
  - Under IFRS, reversal of previous loss: first reverse P&L loss (up to original cost if lower) but we have no revaluation surplus yet. Here, original cost $200k, current $195k ⇒ previous P&L loss $30k, now reversal $25k in P&L (since carrying value still below cost).
    Wait, check: BV before revaluation at Dec 31 Year 8 = $170k, revalue to $195k ⇒ $25k increase. Since cumulative P&L loss at that point $30k, reversal of loss goes to P&L first up to that $30k. So Year 9: P&L gain $25k, revaluation surplus = $0.
- Year 10: FMV $190,000 ⇒ decrease $5,000
  - BV after Year 9 = $195k, FMV now $190k ⇒ decrease $5k. This is charged against revaluation surplus first if any, but there's none yet, so to P&L. Year 10: P&L loss $5k.
    Cumulative P&L effect: $30k loss Year 8, + $25k gain Year 9, - $5k loss Year 10 = $10k loss cumulative before Year 11.

Step 2: Year 11 revaluation

BV before revaluation at Dec 31 Year 11 = $190,000.
FMV at Dec 31 Year 11 = $240,000 ⇒ increase $50,000.
Need to split this between P&L and OCI:
Under IFRS (IAS 16 para 39–40):

- Revaluation increase reversing previous decreases recognized in P&L ⇒ to P&L up to amount of previous decreases.
- Any excess over that ⇒ to OCI (revaluation surplus).

Cumulative previous P&L losses: $10,000 (net P&L effect from Years 8–10, as computed above: $30k loss Y8 − $25k gain Y9 + $5k loss Y10? Wait, let's recompute net P&L before Y11:
Actually:
Y8: Carrying amount after reval: $170k (P&L loss $30k)
Y9: $195k (P&L gain $25k: cumulative P&L = -5k? No, $30k loss previously, now reversed $25k, so cum P&L before Y9 reval = $30k loss? Let's make a table better:

End of Y8:
Carrying value 170k, Original cost 200k ⇒ total decrease 30k (all P&L loss). Cumulative P&L loss = 30k.
End of Y9:
Revalue to 195k ⇒ +25k. Since cost 200k, current carrying 195k, total decrease from cost = 5k, so past P&L loss recognized was 30k, but we are now 5k under cost, so we reverse P&L loss up to min(25k,30k) but actually reversal is only until we reach cost? No, in IFRS, reversal of revaluation decrease that went to P&L goes to P&L until CV reaches cost. Cost was 200k, carrying was 170k, gain is 25k to 195k — still below cost? Yes, 195k < 200k by 5k. So all 25k goes to P&L as reversal of previous loss.
Now cumulative P&L after Y9: Starting cum loss 30k (Y8) − reversed 25k = 5k loss left unreversed (but this is just cost minus CV at Y9, CV 195k < cost 200k, so 5k unreversed loss? The 5k is already embedded? No, if CV exactly cost, cum P&L=0; we're 5k below cost, so cum P&L = 5k loss? Wait 200k cost, CV 195k ⇒ diff 5k, cum P&L must be 5k loss? Let's test: Y8: P&L 30k loss, Y9: P&L 25k gain ⇒ net 5k loss, yes. So after Y9, cum P&L loss = 5k.
Y10: CV 195k, FMV 190k ⇒ down 5k ⇒ that 5k decrease goes to P&L (no reval surplus yet). So after Y10, cum P&L loss = 5k + 5k = 10k.
Thus before Y11, total P&L loss so far = 10k.
Step 3: Year 11 increase allocation
Increase = $50k.
First, reverse the $10k previous P&L losses ⇒ $10k gain in P&L.
Remaining $40k goes to OCI (revaluation surplus).
Thus entry at Y11:
Dr Land $50,000
  Cr Gain on revaluation of land (P&L) $10,000
  Cr Gain on revaluation of land (OCI) $40,000
That matches option **b**.

13. Home Corp. acquired an industrial-scale 3D printer in the year. The following costs were incurred related to the 3D printer:

3D printer	$179,000
Freight and insurance in transit	2,690
Installation and testing labour costs (using Home's own labour)	5,010
Materials cost for testing	1,900
Insurance premium on the printer for its first year of operation	2,245
Consultant used in acquisition of the printer	1,220
Lost revenue due to downtime during installation of the printer	12,450
Estimated current value of decommissioning costs for the printer	500

Home reports using IFRS.
Which one of the following is the total cost for the printer?

Solution:

Under **International Financial Reporting Standards**, specifically IAS 16 (Property, Plant & Equipment), the cost of PP&E includes:

- Purchase price
- Directly attributable costs to bring the asset to location and condition for use
- Initial estimate of dismantling/restoration (ARO provision)

It **excludes**:

- Operating losses
- Insurance after asset is ready for use
- General overhead not directly attributable

1. 3D printer – $179,000
Capitalize ✓ (purchase price)
2. Freight and insurance in transit – $2,690
Capitalize ✓ (cost to bring to location)
3. Installation and testing labour costs – $5,010
Capitalize ✓ (directly attributable cost to get asset ready for use)
4. Materials cost for testing – $1,900
Capitalize ✓ (part of testing to ensure it works as intended)
5. Insurance premium on the printer for its first year of operation – $2,245
Expense ✗ (insurance after asset is ready for use is operating cost, not initial cost)
6. Consultant used in acquisition of the printer – $1,220
Capitalize ✓ (professional fees directly related to acquisition)
7. Lost revenue due to downtime – $12,450
Expense ✗ (not a directly attributable cost, just opportunity cost)
8. Estimated current value of decommissioning costs – $500
Capitalize ✓ (under IFRS, must include initial estimate of decommissioning obligation as part of asset cost)
Sum of capitalizable costs:

179,000

- 2,690 = 181,690
- 5,010 = 186,700
- 1,900 = 188,600
- 1,220 = 189,820
- 500 = **190,320**

Final answer: $190,320

14. On March 31, Logan Co. signs a one-year environmental testing contract with a customer for $25,000, with a payment due to the customer at the end of the contract of $1,250, assuming that the customer does NOT cancel the contract during the term.

The contract includes one performance obligation that is satisfied over time. Logan provides services with a value of $18,000 for the period from April 1 to June 30. Logan reports under IFRS and has a June 30 year end.

Which one of the following is the amount of sales revenue related to the customer that Logan should record at its June 30 year end?

Solution:
Under **International Financial Reporting Standards**, specifically IFRS 15 (Revenue from Contracts with Customers):
Step 1: Determine the Transaction Price
Contract price: $25,000
Bonus (paid to customer if NOT cancelled): $1,250
Because the $1,250 is variable consideration (a payment to the customer), the transaction price is:

$$25{,}000 - 1{,}250 = 23{,}750$$

Since there is no indication of cancellation, and assuming it is highly probable the contract will not be cancelled, the expected transaction price = **$23,750**.
Step 2: Revenue Recognized Over Time
The contract has **one performance obligation satisfied over time**, so revenue is recognized based on progress toward completion.
Value of services provided April 1–June 30: $18,000
Total expected contract services (original price basis): $25,000
Percentage complete:

$$18{,}000 \div 25{,}000 = 72\%$$

Step 3: Revenue to Recognize at June 30
Apply the percentage to the adjusted transaction price:

$$23{,}750 \times 72\% = 17{,}100$$

Revenue to record at June 30 = $17,100

15. On December 9, Year 4, June & Co. negotiated the settlement of a $12,000 account payable to a supplier by paying $4,000 cash and signing a 90-day, 12% note payable for the balance. June reports using ASPE and has a December 31 year end.

Which one of the following amounts should appear in the current liabilities section of the balance sheet with respect to the note on December 31, Year 4?

Solution:
$8,060
This accurately reflects the note payable balance under current liabilities, calculated as the note payable of $8,000 + $60 accrued interest for 23 days in December (23 / 365 × 0.12 × $8,000).

16. Nuts and Bolts Inc. (NBI) reports its financial statements in accordance with ASPE. Manufacturing equipment used to manufacture products that have NOT been selling as well as expected was written down in fiscal Year 1, as it was determined to be impaired.

Management re-evaluated the equipment in Year 2 to ensure it was accounted for properly. Relevant information to assist management in accounting for the equipment properly in fiscal Year 2 is as follows:

Original cost of equipment	$200,000
Impairment loss reported in Year 1 on equipment	60,000
Carrying value on Year 1 statement of financial position	100,000
Undiscounted future cash flows associated with the equipment (estimated in Year 2)	125,000
Fair value of equipment Year 2	105,000

Which one of the following journal entries should be recorded in the Year 2 financial statements, if any, with respect to impairment for NBI?

Question 16 options:
a) No journal entry should be recorded.
b) DR Equipment 5,000
CR Recovery of impairment loss 5,000

Solution:
Under **ASPE (Section 3063 – Impairment of Long-Lived Assets)**, the accounting treatment is very important:
Impairment losses for long-lived assets held for use are NOT reversed under ASPE.
Step 1: Determine current carrying amount
Original cost: $200,000
Impairment loss (Year 1): (60,000)
So, after impairment, carrying amount was reduced by $60,000.
The problem states carrying value on the Year 1 statement of financial position = **$100,000**.
Step 2: Year 2 impairment test
Undiscounted future cash flows (Year 2): $125,000
Carrying amount: $100,000
Since: 125,000 > 100,000
The asset is **recoverable** — so **no further impairment** is required.
Step 3: Can we reverse the prior impairment?
Even though:

- Fair value in Year 2 = $105,000
- This is higher than carrying amount ($100,000)

Under **ASPE**, **impairment losses cannot be reversed** for long-lived assets held for use. (Unlike IFRS, which allows reversal under certain conditions.) No impairment and no reversal are permitted under ASPE.

a) No journal entry should be recorded.

17. On September 1, Year 1, SST Ltd. sold a new all-in-one printer to Millennium Co. for a total contract price of $5,300. As part of the contract, SST always provides on-site installation when a customer purchases a printer; customers would NOT be able to

obtain the installation service from other suppliers. The contract payment also includes a three-year maintenance service agreement. SST also separately sells the printer and installation for $3,600 and the maintenance service for $1,800. SST estimates that the fair value of the printer is $3,400 and the fair value of the installation service is $200. The printer was delivered and installed on September 15, Year 1.

As part of the agreement, SST agrees to the following payment terms from Millennium:
September 1, Year 1: $4,100
September 1, Year 2: $ 600
September 1, Year 3: $ 600
SST has determined that the credit risk rate associated with Millennium is 8%. SST reports under IFRS.
Which one of the following amounts will SST record as revenue for this transaction on September 15, Year 1?

Solution:
Under **IFRS 15 – IFRS 15**, we follow the **5-step revenue model**.
Step 1: Identify performance obligations

1. **Printer + Installation**
    - Installation is NOT separately obtainable.
    - Therefore, printer and installation are **one combined performance obligation**.
2. **Three-year maintenance agreement**
    - Separate performance obligation (distinct service over time).

Step 2: Determine transaction price (consider financing)
Total payments:

- Sept 1 Year 1: $4,100
- Sept 1 Year 2: $600
- Sept 1 Year 3: $600

Total nominal payments = **$5,300**
Because payments are deferred beyond one year and SST identified an 8% credit rate, there **is a significant financing component**.
We must discount the future payments.
Present value calculation (Sept 1, Year 1)
PV = 4,100 + (600)/(1.08) + (600)/(1.08^2)
= 4,100 + 555.56 + 514.40
= 5,169.96 (5,170)appr
So, **transaction price = $5,170**
(The extra amount above this will be recognized as interest income over time.)
Step 3: Allocate transaction price
Stand-alone selling prices:

- Printer + installation = $3,600
- Maintenance = $1,800

Total standalone = $5,400
Allocation ratio:

- Printer/install: 3,600 / 5,400 = 2/3

- Maintenance: 1,800 / 5,400 = 1/3

Allocated revenue:

- Printer/install: 5,170 × 2/3 = 3,447
- Maintenance: 5,170 × 1/3 = 1,723

Step 4: Revenue on September 15, Year 1

On Sept 15:

- Printer delivered ✓
- Installation completed ✓

So the **entire printer/install performance obligation is satisfied at a point in time.**

Maintenance is recognized over 3 years, so none (or minimal for 15 days) is recognized at delivery unless specifically prorated (question does not request this).

Final Answer: $3,447

SST will recognize **$3,447 of revenue on September 15, Year 1.**

18. XYZ Co. reports its financial statements in accordance with ASPE. XYZ has gathered the following information on some manufacturing equipment for a line of products that is being discontinued:

Cost of equipment	$300,000
Accumulated depreciation — equipment	60,000
Undiscounted future net cash flows associated with the equipment (estimated)	180,000
Fair value of equipment	150,000

Which one of the following represents the impairment loss to be reported by XYZ with respect to this equipment?

Solution:

Under **ASPE (Section 3063 – Impairment of Long-Lived Assets)**, impairment is tested using a **recoverability test**.

Step 1: Determine carrying amount

Cost: $300,000

Less accumulated depreciation: (60,000)

Carrying amount = 240,000

Step 2: Recoverability test (Undiscounted cash flows)

Undiscounted future cash flows: $180,000

Compare to carrying amount:

180,000 < 240,000

The asset is **not recoverable** → impairment exists.

Step 3: Measure impairment loss

Under ASPE, impairment loss is:

Carrying amount − Fair value

240,000 − 150,000 = 90,000

Final Answer: $90,000

XYZ should report an **impairment loss of $90,000**.

19. Projack Services Ltd. (Projack) manufactures portable power-generating plants to specifications for several industrial customers. Its policy is to recognize revenue on a percentage-of-completion basis under ASPE. The following projects were underway over the current year end:

Project	Belford plant	Gotham plant	Markham plant	Vickon plant
Costs incurred to year end	$40,000	15,000	17,000	21,000
Estimated costs to complete at year end	$65,000	28,000	96,000	5,000
% complete at year end	38%	35%	15%	81%
Total contract fee	$135,000	49,000	145,000	33,000

The estimated costs to complete the Gotham plant project increased by $11,000 in the year. In the prior year, $25,000 in revenue was recognized for the Belford plant project and $8,000 was recognized for the Markham plant project.

Which one of the following represents the gross contract fee revenue that Projack should recognize at the current year end?

Solution:

Under **ASPE percentage-of-completion**, revenue recognized to date is:

Revenue to date = % complete × Total contract fee

Current-year revenue = Revenue to date − Revenue recognized in prior year (if any).

1 Belford Plant

Revenue to date = 38% × $135,000

= **$51,300**

Less prior year revenue recognized = $25,000

Current year revenue = 51,300 − 25,000 = **$26,300**

2 Gotham Plant

Revenue to date = 35% × $49,000

= **$17,150**

(No prior year revenue given — assume none)

Current year revenue = **$17,150**

(Note: The $11,000 increase in estimated costs is already reflected in the 35% completion.)

3 Markham Plant

Revenue to date = 15% × $145,000

= **$21,750**

Less prior year revenue = $8,000

Current year revenue = 21,750 − 8,000 = **$13,750**

4 Vickon Plant

Revenue to date = 81% × $33,000

= **$26,730**

(No prior year revenue given)

Current year revenue = **$26,730**

Total Revenue Recognized This Year

$$26{,}300 + 17{,}150 + 13{,}750 + 26{,}730$$
$$= \boxed{\$83{,}930}$$

Projack should recognize $83,930 of gross contract fee revenue at the current year end.

20. In May, the city council of Oshawa, Ontario, awarded a $7.6 million contract to Build-It Corp. (BIC) to construct a new community centre in the city. The contract included a clause that provided for an early-completion bonus if BIC finished the project at least one month before the scheduled completion date of October 31. The bonus completion schedule, together with BIC's senior management's estimates as to the probability of finishing by the specified dates, follows:

Completion Date	Bonus	Probability
Before July 31	$400,000	10%
August 1–31	$300,000	20%
September 1–30	$200,000	**40%**
October 1+	$0	30%

BIC's year end is December 31. It reports its financial results in accordance with IFRS and uses the most likely amount to estimate variable consideration.

Which one of the following is the transaction price that should be used to recognize revenue for this contract?

Solution:

Because BIC reports under **IFRS (IFRS 15 – IFRS 15】)** and uses the **most likely amount** method to estimate variable consideration, we apply the following steps:

Step 1 – Understand the question

Under IFRS 15, variable consideration (like a performance bonus) is estimated using either the *expected value* (probability-weighted) or the *most likely amount*, depending on which better predicts the amount to which the entity will be entitled.

The company policy given says: *uses the most likely amount*.

So, ignore the expected-value calculation; just pick the single most likely outcome.

Step 2 – Find the most likely completion date and bonus

Probabilities:

- Prior to July 31 → 10%
- Aug 1–31 → 20%
- Sep 1–30 → 40%
- Oct 1 or later → 30%

The highest probability is **40%** (Sep 1–30).

That corresponds to a bonus of **$200,000**.

Step 3 – Determine transaction price

Contract base amount = $7,600,000

Bonus (most likely) = $200,000

Transaction price = $7,600,000 + $200,000 = **$7,800,000**

21. Reclaimed Creations (RC) is a manufacturer of custom tables and chairs built using reclaimed wood. On October 31, Year 1, RC sold and delivered a boardroom table and 12 chairs to Legend Inc. If the customer had paid that day, the total price would have been $35,000. Instead, RC accepted $15,000 cash on October 31, Year 1, with a further payment of $25,000 to be made in two years on October 31, Year 3. RC has a December 31 year end and prepares its financial statements in accordance with IFRS.

What is the total interest revenue that RC will record as a result of this contract for its December 31, Year 1, year end?

Solution:

Under **IFRS** (International Financial Reporting Standards), when payment terms provide **significant financing**, the transaction must be separated into:

1. Revenue from sale (at cash selling price), and
2. Interest revenue over the financing period (effective interest method).

Step 1: Determine Cash Selling Price

If paid immediately:

$35,000

This is the **fair value of consideration** and is the revenue recorded on October 31, Year 1.

Step 2: Determine Implied Financing

Total payments under contract:

- $15,000 (Oct 31, Year 1)
- $25,000 (Oct 31, Year 3)

Total received = **$40,000**

Since cash price is $35,000, total interest over two years = 40,000 - 35,000 = 5,000

Step 3: Determine Implied Interest Rate

Amount financed: 35,000 - 15,000 = 20,000

Future payment in 2 years = $25,000

20,000 (1 + r)^2 = 25,000

(1 + r)^2 = 1.25

r = approx 11.8%

Step 4: Interest Revenue for Year 1

The receivable exists from **October 31 to December 31** (2 months).

Annual interest: 20,000 x 11.8% = 2,360

For 2 months: 2,360 x 2/12 = 393

Final Answer:

Total interest revenue recorded at December 31, Year 1 ≈ $393

22. Kingsmere Properties (Kingsmere) has just started construction on a multi-unit townhome development. Although construction will NOT be completed for another 12 months, some units have been pre-sold, and the future homeowners have made a down

payment for homes in this popular new development. Payments are refundable if the development is NOT completed. The homes are a standard construction, and the future homeowners are NOT involved in the decision-making. Kingsmere is anxious to record this revenue as soon as possible in order to secure the necessary financing. Kingsmere reports under ASPE.

Which one of the following would be the MOST appropriate accounting policy recommendation?

Question 22 options:

a) Recognize revenue when the home is completed and legal title transfers, because the performance obligation will not be satisfied until this time.
b) Recognize revenue evenly over the construction period because it occurs over 12 months.
c) Recognize revenue when the related operating expenses are recorded, because this will ensure that revenues match their related expenses.
d) Recognize revenue in accordance with the owners' wishes, because there appears to be uncertainty and, as such, the policy can match user objectives.

Solution:

Under **ASPE**, revenue is recognized when:

- Performance is complete,
- The significant risks and rewards of ownership have transferred,
- Collection is reasonably assured.

In this case:

- Construction is **not yet complete**.
- Legal title has **not transferred**.
- Payments are **refundable** if construction is not completed.
- Buyers are **not involved** in construction (standard inventory-type real estate).

Therefore, Kingsmere **has not yet satisfied its performance obligation**, and the risks and rewards of ownership have not transferred.

The down payments should be recorded as a **liability (deferred revenue or customer deposits)** until completion and legal transfer.

Option a) is correct. The performance obligation is satisfied at a point in time when the unit is transferred to the purchaser. The purchaser is purchasing the asset of the house, not the service of construction, which is evident by the purchasers' lack of involvement in the process and the ability of the down payment to be refunded. Therefore, no revenue should be recognized until title transfers.

23. Ketill Ltd. (KL), an app developer, sells a game that can be downloaded by customers for $10.99. Customers can also purchase Go-coins for $0.50 each, which provide additional game features. KL recently started selling a bundled download for $50, in which a new player can download the game and receive 100 Go-coins. KL recognizes revenue on the download immediately and defers recognition of revenue from the Go-coins until they are used in the game. KL reports under ASPE. In the current fiscal year, KL sold 6,500 bundled downloads for $50 each.

Which one of the following is the total amount of revenue that KL should recognize for game downloads in the current fiscal year related to these sales?

Solution:

Under **ASPE**, bundled sales must be allocated to the separate deliverables based on their **standalone selling prices (relative fair value method)**.

1. Identify the performance obligations (POs) in the bundled download

The bundle:

1. Game download (sold separately for $10.99)
2. 100 Go-coins (each Go-coin sold separately for $0.50 each → total 100 × 0.50 = $50.00 if bought separately)

Separate selling prices:

Game = $10.99

100 Go-coins = $50.00

Total = $60.99

Bundled price = $50.00

2. Allocate transaction price using relative standalone selling price

Standalone prices are used to allocate the bundled price to each PO.

Total standalone price = $10.99 + $50.00 = $60.99

Allocation:

Game = ($10.99 ÷ $60.99) × $50

Coins = ($50.00 ÷ $60.99) × $50

Compute:

Game allocation fraction = 10.99 / 60.99 ≈ 0.18020

× $50 = **$9.01** per bundle allocated to Game download

Coins allocation fraction = 50.00 / 60.99 ≈ 0.81980

× $50 = **$40.99** per bundle allocated to Go-coins

Check: $9.01 + $40.99 = $50.00

3. Revenue recognized in current fiscal year for Game downloads

KL sells 6,500 bundles.

Revenue recognized for Game download immediately per bundle = $9.01

Total revenue for Game downloads = 6,500 × $9.01 = **$58,565**

4. Reasoning

Go-coins revenue ($40.99 per bundle × 6,500) = $266,435 is deferred until the Go-coins are used.

Final answer: $58,565

24. In Year 1, Buildex Co. entered into a $12,000,000 contract to construct a building for a local not-for-profit organization. The contract is expected to take three years to complete. Buildex uses the cost-to-cost approach to estimate the stage of project completion. The following data pertains to the construction period:

	Year 1	Year 2	Year 3
Actual costs incurred	$3,080,000	$2,600,000	$3,200,000
Estimated costs to complete	5,720,000	3,920,000	0

Billings during the year	3,600,000	4,000,000	4,400,000
Collections during the year	2,800,000	3,920,000	5,280,000

Assume Buildex reports under ASPE and uses the percentage-of-completion method for long-term construction contracts.
Which one of the following represents the amount of gross profit that Buildex should recognize in Year 1 on this contract?

Solution:
Step 1: Understand the cost-to-cost method
Percentage complete = **Actual costs incurred to date ÷ Total estimated costs (incurred + estimated to complete)**
Revenue recognized = % complete × Contract price
Gross profit recognized = Revenue recognized – Costs incurred to date (cumulative profit, then subtract prior years)
Step 2: Year 1 data
Contract price = $12,000,000
Actual costs incurred in Year 1 = $3,080,000
Estimated costs to complete at end of Year 1 = $5,720,000
Total estimated costs at end of Year 1 = $3,080,000 + $5,720,000 = $8,800,000
% complete Year 1 = $3,080,000 ÷ $8,800,000 = **0.35** (35%)
Step 3: Revenue & gross profit for Year 1
Revenue recognized Year 1 = 35% × $12,000,000 = $4,200,000
Costs incurred Year 1 = $3,080,000
Gross profit Year 1 = $4,200,000 – $3,080,000 = **$1,120,000**
Step 4: Check billings/collections (irrelevant for gross profit calculation)
Billings Year 1 = $3,600,000
Collections Year 1 = $2,800,000
Those affect receivable/payable on balance sheet but not gross profit. Gross profit is determined solely by % complete × contract price minus costs.
Final Year 1 gross profit: $1,120,000

25. On April 15, Year 1, SFC Inc. consigned 80 units of Product A to HGL Inc. Each unit cost SFC $450 to produce, and it cost $1,000 to ship all the consigned units to HGL. On December 31, Year 1, HGL reported that it had sold 40 units for $800 each, and remitted to SFC the proceeds of sales, less a 15% commission and $850 in delivery costs to customers. SFC reports under ASPE.

Which one of the following represents the profit on the consigned sales that SFC will report for Year 1?

Solution:
Under **ASPE**, for consignment arrangements:
- Revenue is recognized **only when the consignee sells the goods to third parties**.
- The consignor (SFC) reports:

- Sales revenue (gross sales to customers),
- Less: commission and delivery expenses,
- Less: cost of goods sold (including proportionate shipping cost to consignee).

Step 1: Sales Revenue

40 units sold × $800

= **$32,000**

Step 2: Commission Expense

15% × $32,000

= **$4,800**

Step 3: Delivery Costs to Customers

= **$850**

Step 4: Cost of Goods Sold

Production cost:

40 × $450 = **$18,000**

Shipping cost to HGL:

Total shipping = $1,000 for 80 units

Per unit shipping = $1,000 ÷ 80 = $12.50

Shipping for 40 units:

40 × $12.50 = **$500**

Total COGS = 18,000 + 500 = **$18,500**

Step 5: Profit on Consigned Sales

32,000 - 4,800 – 850 - 18,500 = 7,850

Final Answer:

Profit on consigned sales for Year 1 = $7,850