Chartered Professional Accountants | CPA PROFESSIONAL PROGRAM

Sample CPA Professional Program Exams – Objective-Format Questions

Knowledge Assessment

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

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

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KNOWLEDGE ASSESSMENT – PART A

Assurance and trust

Sample question 1

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

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

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

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

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

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

Solution:

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 For example, if the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, the IESBA Code35 requires that the predecessor auditor, on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

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

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

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

Sample question 2

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

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

Select the most appropriate basis for calculating materiality for Nova.

a. Total assets

b. EBITDA

c. Total revenues

d. Net income

Solution:

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

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

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

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

Sample question 3

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

Select the procedure that is most appropriate for this purpose.

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

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

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

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

Solution:

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

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

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

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

Big data and data analytics

Sample question 4

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

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

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

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

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

Solution:

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

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

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

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

Sample question 5

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

Select the most appropriate type of analysis for this objective.

a. Descriptive analytics

b. Predictive analytics

c. Prescriptive analytics

d. Diagnostic analytics

Solution:

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

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

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

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

Ethical decision-making and organizational governance/data governance

Sample question 6

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

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

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

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

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

Solution:

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

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

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

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

Sample question 7

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

a. Confidentiality

b. Professional competence

c. Integrity

d. Objectivity

Solution:

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

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

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

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

Finance

Sample question 8

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

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

Select the most appropriate assessment of the financing options.

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

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

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

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

Solution:

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

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

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

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

Sample question 9

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

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

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

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

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

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

Solution:

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

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

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

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

Sample question 10

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

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

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

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

Solution:

$45,000

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

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

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

Total PV of cash inflows = $255,028.78

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

Non-financial reporting

Sample question 11

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

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

a. Sustainability Accounting Standards Board (SASB) standards

b. Global Reporting Initiative (GRI) standards

c. Climate Disclosure Standards Board (CDSB) standards

d. CDP (formerly Carbon Disclosure Project) questionnaires

Solution:

A. Correct. The SASB standards provide specific metrics for sustainability-related disclosure, categorized by industry.

B. Incorrect. GRI standards are designed primarily for broad stakeholder reporting, with less emphasis on investors. The standards are comprehensive, but not industry-specific at the level of reporting metrics.

C. Incorrect. The CDSB standards, while investor focused, are industry-agnostic and do not provide industry-specific sustainability performance metrics.

D. Incorrect. The CDP is a disclosure platform that acts as a de-facto standard for measuring and managing environmental risks and opportunities. While it includes industry-specific supplements, it would not be the best source for industry-specific sustainability performance metrics.

Sample question 12

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

Select the statement that is best supported by this data.

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

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

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

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

Solution:

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

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

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

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

Strategy, risk management, and innovation

Sample question 13

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

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

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

b. Increased competition from similar studios recently entering the market

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

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

Solution:

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

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

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

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

Sample question 14

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

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

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

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

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

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

Solution:

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

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

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

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

Tax

Sample question 15

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

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

a. $50,333.33

b. $38,333.33

c. $62,333.33

d. $40,000.00

Solution:

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

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

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

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

Sample question 16

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

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

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

a. $382,000
b. $302,000
c. $240,000
d. $432,000

Solution:

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

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

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

C. Incorrect. This only includes business income.

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

Sample question 17

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

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

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

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

a. $77,000

b. $81,000

c. $70,000

d. $65,000

Solution:

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

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

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

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

Foundational competencies

Sample question 18

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

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

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

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

d. The total value of all exports

Solution:

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

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

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

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

Sample question 19

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

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

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

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

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

Solution:

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

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

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

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

KNOWLEDGE ASSESSMENT – PART B

Financial reporting

Sample question 20

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

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

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

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

c. Cost method

d. Equity method

Solution:

A. Correct.

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

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

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

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

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

B. Correct.

IFRS 9.4.1.4 states:

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

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

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

C. Incorrect.

IFRS 9.4.1.4 states:

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

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

D. Incorrect.

IFRS 9.4.1.4 states:,

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

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

Sample question 21

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

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

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

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

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

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

Solution:

A. Correct.

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

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

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

B. Incorrect.

ASPE 3063.04-.05 states:

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

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

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

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

Sample question 22

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

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

a. $32,076
b. $36,000
c. $20,076
d. $24,000

Solution:

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

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

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

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

Sample question 23

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

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

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

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

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

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

Solution:

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

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

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

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

Sample question 24

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

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

a. $137,000

b. $140,200

c. $136,300

d. $141,300

Solution:

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

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

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

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

Sample question 25

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

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

a. $62,500

b. $15,625

c. $125,000

d. $187,500

Solution:

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

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

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

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

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

Sample question 26

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

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

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

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

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

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

Solution:

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

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

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

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

Sample question 27

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

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

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

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

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

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

Solution:

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

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

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

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

Sample question 28

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

Select the selling price per unit.

a. $56.25
b. $37.50
c. $45.00
d. $55.00

Solution:

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

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

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

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

Sample question 29

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

Select the primary advantage of implementing an ERP system.

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

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

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

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

Solution:

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

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

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

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

Sample question 30

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

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

Select the variable cost per unit.

a. $30.00

b. $25.00

c. $50.00

d. $20.00

Solution:

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

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

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

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

Sample question 31

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

Select the break-even point in units.

a. 3,000 units

b. 1,800 units

c. 1,125 units

d. 692 units

Solution:

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

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

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

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

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