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*ELECTIVE (Assurance)*

*Elective examinations are 4 hours in length but are designed so there is minimal time constraint.*

*The examinations are made up of a mix of objective-format and medium- to large-sized, moderately complex cases. The split and length may vary across the Electives to adapt to the learning outcomes required.*

*Elective examinations contain larger and more complex cases than those used for Core 1 and Core 2, requiring a minimum of 60 and a maximum of 120 minutes to complete\*. The assessment of professional skill is in a multi-competency environment, building on prior learnings, but greater than 50% of assessment opportunities will relate to the Elective area being examined.*

*Elective cases require candidates to simulate the “roles” they will play in real life, and, therefore, access is provided to the reference tools they would use, where practical to do so.*

**Pacific Airport**

**Suggested time: 120 minutes**

You, CPA, are an internal auditor with Pacific Airport (PA). PA, located in Pacific City, has undergone significant expansion during fiscal 2021, including the construction of a new terminal building to allow it to start servicing international routes. Given it operates on land leased from the Canadian government, PA is subject to regulation related to both environmental issues and which airlines it is permitted to do business with. Details on the Land Use Rules are provided in Appendix I.

It is February 13, 2022, and you are beginning to prepare for the December 31, 2021, annual external audit of the financial statements in accordance with International Financial Reporting Standards. “We need to address the key accounting issues before the audit firm arrives,” the director of internal audit, Carol Marcus, explains. “Therefore, I would like you to prepare a memo on the treatment of the accounting matters I have identified in Appendix II.

“The chief financial officer (CFO), Leonard Castle, also mentioned that during his review of earnings, he became concerned with the revenue figures from our parking lot,” Carol continues. “He did not notice a decrease in car traffic, but revenue has significantly declined. Upon further investigation, he discovered that fraud had occurred. I have provided the background on our parking revenue process and an analysis of the current-year revenue figures in Appendix III. Please provide the CFO with some insight into what may have happened and how we can improve our controls over parking revenue to prevent something similar from happening in the

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future. Please also explain what analytical procedures PA staff can perform as detective controls to help them identify, on a more timely basis, any anomalies in parking revenue.

“Further, our external auditors have asked for our assistance in completing audit procedures over additions to capital assets related to our new international terminal, and procedures over our landing fee revenue. Please design procedures over the additions to capital assets, keeping in mind the relevant risks. For landing fee revenue, given the high volume of flights on an annual basis, an analytical procedure is likely the most appropriate. Please perform that analysis.

“In connection with our ‘50-year plan’ for the new international terminal, the CEO, Teresa Walsh, has requested that we perform a quantitative analysis of a proposed agreement with Asian Continental Airlines (ACA). She asked whether there is anything else we should consider before entering into a business relationship with ACA. Teresa has provided the key details of the current deals and the ACA proposed agreement in Appendix IV.”

You finish drafting your notes and get to work.

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## **APPENDIX I LAND USE RULES**

The Canadian government requires Pacific Airport (PA) to be in compliance with the following regulatory rules as a condition for using the land leased for airport operations. PA complied with all of these regulations in 2021.

### **1. Environmental Impacts**

The impact of carbon dioxide emissions on the Pacific City region from departing and arriving flights must be limited to 1,000 metric tonnes per annum. Each additional metric tonne is subject to a \$10,000 fine. When a jet airplane lands and then takes off, it generates a total of 100 kilograms of carbon dioxide impact, on average, on the local surrounding area (1,000 kilograms equals 1 metric tonne).

### **2. Canadian Airline Facilitation**

PA must not engage a foreign airline to service more than 5% of the volume of a given route, calculated based on number of passengers travelling the route. For example, if total passenger demand for a route from Pacific City to Singapore is 100,000 passengers per year, foreign-based airlines may not service more than 5,000 passengers. Each percentage in excess of 5% is subject to a \$15,000 fine per route.

### **3. Noise Pollution**

Given proximity to residential communities, PA must cease airport operations at 11:00 p.m. local time on a daily basis and refrain from beginning airport operations until the following morning at 6:00 a.m. Each flight that takes off or lands during the hours of limitation will be subject to a \$2,500 fine.

Non-compliance with these rules will result in fines to the airport, as specified above. PA is expected to commit to the highest standards of ethical business conduct and service to its stakeholders, including customers, employees, tenants, suppliers, neighbours, and the city.

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**APPENDIX II**  
**ACCOUNTING ISSUES — YEAR ENDED DECEMBER 31, 2021**

**New International Terminal**

During the year, PA constructed a new terminal to allow the airport to offer flights to international destinations. As a result of these activities, PA accounting staff has capitalized \$46,907,000 in attributable costs, as outlined below.

<b>Cost Component</b>	<b>Amount</b>	<b>Description</b>
Land preparation	\$ 350,000	Preparing the land upon which the terminal would be built, such that it was within code for airport operations, fuel storage, etc.
Professional fees	\$ 600,000	Architectural and engineering fees
Advertising and promotion activities	\$ 78,000	Advertising in local newspapers to educate the public on how their airport improvement fees were being spent
Staff time for working on the project	\$ 383,000	Employee salaries and benefits attributable to the property, allocated using timesheets. Includes \$100,000 for the fair value of share-based payments with a three-year vesting period
Interest costs	\$ 140,000	Interest costs related to borrowings used to help finance operations as a result of the strain on cash flow caused by construction of the terminal
Building costs	\$45,328,000	Costs of materials and construction labour to build the terminal
Training costs	\$ 28,000	Salary and benefits of the terminal manager for time spent training employees on new systems

On November 1, 2021, the terminal was substantially complete and PA began servicing international routes.

**Events after December 31, 2021**

On January 21, 2022, 10 jetbridges for the new international terminal were lost in a fire. The fire was due to faulty electrical work. The cost of reconstructing these jetbridges, minus what the insurance company will cover, will be \$8.4 million.

At year-end, we accrued \$250,000 in architecture fees for the new international terminal; however, due to out-of-scope billings, the architecture firm has since submitted an invoice totalling \$400,000.

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**APPENDIX II (continued)**  
**ACCOUNTING ISSUES — YEAR ENDED DECEMBER 31, 2021**

**Investment in Regula Regional Airport**

During the year, PA invested \$15 million in Regula Regional Airport (Regula), which is located in Genesis, a small Canadian town. PA's investment includes a 35% ownership of common shares outstanding as at December 31, 2021, with an option to purchase an additional 18% at their fair value at any time. The remaining shareholders, who are unrelated, collectively own 65% of the airport, but individually own less than 5% each. Two of five directors on the Regula board are PA executives, and upon its investment, PA was provided with the power to appoint the Regula CEO and COO. The investment is currently recorded at cost on the balance sheet.

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## APPENDIX III PARKING REVENUE

### Process

When customers drive into the parking lot, they are provided with a ticket that is date-stamped. Customers must retain this ticket so that the attendant can determine how long a customer has been parked and charge the appropriate fee when the customer leaves. Cars also drive over a sensor that keeps track of how many cars have entered the lot, the output of which is automatically exported to a report that is saved directly on the accounting department's server. A customer who loses a ticket is charged a \$35 lost-ticket fee. Both the parking fee and the lost-ticket fee can be settled by credit card or cash.

At the end of a shift, the parking lot attendant counts all of the cash in the till and puts it and all customer parking tickets in an envelope that is held in a locked drawer in the parking kiosk. The envelope is submitted to accounting on a weekly basis. There is always a small \$100 float in the till to provide change for customers. The attendant also writes down how many lost ticket charges were issued and includes that note in the envelope.

The parking attendants are unionized, and the union contract notes that an attendant must be employed during all operating hours. This prevents the airport from adopting automated customer self-service machines for the parking lot.

### Analysis

	<b>2021</b>	<b>2020</b>
Parking fee (per day)	\$ 25	\$ 25
Cars entering lot	231,418	219,582
Credit card revenue	\$17,356,400	\$15,590,300
Cash revenue	\$ 3,905,200	\$ 6,282,000
Number of lost-ticket charges	28,927	1,321

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**APPENDIX IV  
CURRENT DEALS AND PROPOSED AGREEMENT**

**Landing Fee Statistics**

<i>Statistics for the year ended December 31, 2020</i>	
Landing fee revenue (domestic only)	\$42,574,000
Number of landings	7,969
<i>Statistics for the year ended December 31, 2021</i>	
Landing fee revenue (domestic and international)	\$45,639,300

Note: Landing fees were increased by 5% as at January 1, 2021, in line with inflation. Although the statistics on the number of planes landed is not yet available for 2021, the airport does not expect a significant fluctuation in domestic flights from 2020.

**Accepted International Arrangements as of November 1, 2021**

The following international flights are currently being provided by multiple Canadian airlines in to and out of Pacific Airport:

<b>Route</b>	<b>Total Passenger Arrivals per Year</b>	<b>Landings in Pacific City per Year</b>
Shanghai – Pacific City	75,000	250
Tokyo – Pacific City	100,000	345
Singapore – Pacific City	92,500	300

Prior to the addition of these international flights, PA’s carbon dioxide output was approximately 905 metric tonnes per year.

**Asian Continental Airlines**

Asian Continental Airlines (ACA) proposes the following arrangement with Pacific Airport:

<b>Route</b>	<b>Landings in Pacific City per Year</b>	<b>Passenger Fees (Note 1)</b>	<b>Landing Fees per Flight (Note 2)</b>	<b>Arrival Time in Pacific City/ Departure Time from Pacific City</b>
Shanghai – Pacific City	24	\$25	\$6,500	5:45/9:15
Tokyo – Pacific City	20	\$25	\$6,500	21:30/24:00
Singapore – Pacific City	22	\$25	\$6,500	13:00/6:00

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**APPENDIX IV (continued)**  
**CURRENT DEALS AND PROPOSED AGREEMENT**

**Notes:**

1. Passenger fees are fees charged to both arriving and departing passengers. The fees relate to the use of common airport facilities such as washrooms and baggage processing.
2. Landing fees are fees charged to the airline for each of its planes that lands on one of the airport's runways. The fees relate to the maintenance and replacement of runways.

The above routes are proposed as a package and cannot be selectively accepted. ACA operates a fleet of wide-body aircrafts that supports an average ridership of 400 people per flight.

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