

Core 1 Self-Assessed Entrance Exam

1. Genette Inc. (GI) reports under ASPE. The controller of GI is about to record a journal entry to account for a related party transaction. The transaction in question was not in the normal course of operations for GI and resulted in no substantive change in ownership interests. How should the controller account for this transaction?

- a. Measure the transaction at the carrying amount and record any gain or loss in income.
- b. Measure the transaction at the carrying amount and record any gain or loss in equity.
- c. Measure the transaction at the exchange amount and record any gain or loss in income.
- d. Measure the transaction at the exchange amount and record any gain or loss in equity.

2. Spare parts that have a lifespan of less than one year:

- a. Include items such as a spare engine for a car.
- b. Require an assessment to determine whether depreciation should commence.
- c. Are also known as standby equipment.
- d. Are classified as inventory.

3. The following accounts were taken from Blue Monkey Inc.'s unadjusted trial balance at December 31, 20X6:

Accounts receivable	\$850,000
Opening allowance for doubtful accounts (AFDA) January 1, 20X6	(\$11,000)
Net credit sales	\$2,950,000

Blue Monkey estimates that 1.5% of the gross accounts receivable will become uncollectable. At December 31, 20X6, AFDA should have a credit balance of what amount?

- a. \$1,750
- b. \$11,000
- c. \$12,750
- d. \$44,250

4. Kima Inc. had credit sales of \$600,000 and cash collections of \$450,000 last year. The ending balance in accounts receivable was \$175,000. The allowance for doubtful accounts (AFDA) has a current credit balance of \$2,600. Based on an aging analysis, Kima has estimated that the allowance for doubtful accounts is 4% of the gross amount of outstanding receivables. What is the bad debt expense for the year?

- a. \$4,400
- b. \$6,000
- c. \$7,000
- d. \$9,600

5. In order to qualify for separate presentation on the income statement, a discontinued operation must be considered a component of an entity.

Which of the following would be considered a component of an entity?

- a. A hotel in a hotel chain
- b. The administration building of a large manufacturing company
- c. A truck stop for a national trucking company
- d. The warehouse of a communications company

6. Under IFRS, assets are considered held for sale when several criteria have been met. Which of the following criteria must be met in order to define an asset as held for sale?

- a. The asset is available for immediate sale in its present condition.
- b. There is an authorized plan to sell the asset.
- c. The asset is actively marketed and expected to be sold within two years.
- d. Both a) and b) above.

7. Which of the following statements is FALSE?

- a. Consolidated ending retained earnings is impacted by amortization to date of fair value differentials that arose at acquisition.
- b. Consolidated retained earnings is impacted by unrealized profit in closing inventory on intercompany inventory sales.
- c. Consolidated retained earnings is impacted by intercompany management fees recognized in the current year.
- d. Consolidated retained earnings is impacted by an unrealized loss on an intercompany sale of equipment.

8. On November 1 of the current year, Bait Co. sold inventory to its wholly owned subsidiary, Tackle Ltd. 80% of these goods were then sold by Tackle to customers of Tackle prior to the December 31 year end.

What are all of the consolidation adjustments required for the preparation of the consolidated financial statements related to this transaction? (Ignore the effects of income taxes.)

- a. Decrease sales and cost of sales by the intercompany selling price, and increase cost of sales and decrease inventory by the unrealized profit in ending inventory.
- b. Decrease cost of sales by the unrealized profit in ending inventory and increase inventory by the same amount.
- c. Increase cost of sales by the unrealized profit in ending inventory and decrease inventory by the same amount.
- d. Decrease sales and cost of sales by the intercompany selling price of the inventory.

9. How should acquisition-related costs, such as due diligence and legal costs, be accounted for?

- a. Expensed as incurred
- b. As part of the total consideration
- c. As a reduction in equity
- d. As a deferred asset

10. A bargain purchase arises when the price paid to acquire a controlling interest in another company is less than the acquirer's share of the fair value of net assets of the company being acquired. At the end of your preliminary analysis, you believe that a business combination results in a bargain purchase. What is your next step?

- a. Recognize an immediate gain in the consolidated statement of profit and loss without any further analysis.
- b. Recognize a liability in the consolidated balance sheet.
- c. Contact the acquiree to confirm its intention.
- d. Reassess each step of your analysis to confirm your preliminary finding.

11. Which of the following statements is true?

- a. Under IFRS, publicly traded bonds with a maturity less than or equal to six months are considered cash and cash equivalents.
- b. There are no significant differences between IFRS and ASPE in the treatment of cash and cash equivalents.
- c. Under ASPE, redeemable preferred shares with a maturity less than or equal to three months are considered cash and cash equivalents.
- d. Under ASPE, minimum balance requirements in bank accounts are considered cash and cash equivalents.

12. Which of the following is considered restricted cash?

- a. Foreign currency where there is a limited market for exchange into the company's operating currency
- b. Minimum balance requirements in bank accounts
- c. Donations provided for a specific purpose in a not-for-profit organization
- d. Both b) and c)

13. Kevin, an audit associate at your firm, Stanford and Poor LLP, is reviewing accounting changes. Which of the following statements is correct?

- a. If a company decides to change the amortization period of kitchen equipment from three years to five years because the equipment is lasting longer than originally intended, this change should be accounted for retrospectively.
- b. If a company changes any of its accounting policies, it should include a note to the financial statements indicating the effect of the change on the current period and prior periods, but a description of the change is not required.
- c. A company can account for changes in accounting policies prospectively if the change is required by a primary source of GAAP that permits or requires prospective application.
- d. Under ASPE, a company may account for a change in its revenue recognition policy prospectively if the financial data needed to determine the impact on previous periods is readily available.

14. Which of the following describes a change in accounting policy?

- a. Inventory was sold below its carrying amount even though the inventory had been previously written down to what was believed to be the net realizable value.
- b. A public company changes from the cost model to the revaluation model for measuring the value of land.
- c. Development costs were capitalized when only five of six criteria for capitalization had been satisfied.
- d. The company miscalculated the weighted average number of ordinary shares outstanding because it used the wrong date for a share issuance.

15. You, CPA, are the audit senior on the Louise's Landscaping (Louise's) file. The year-end financial statements of Louise's were prepared in accordance with ASPE. Which of the following items has been reported correctly?

- a. Louise's has been sued by a customer to whom Louise inadvertently sold poison ivy instead of Virginia creeper. The lawsuit is for \$500,000. A liability for \$500,000 has been recognized. Louise's legal counsel believes that Louise's is liable, but is unable to estimate the amount.
- b. Louise's has been sued by a supplier for a disputed payment of \$280,000. Louise's legal counsel believes that there is a 35% probability that she will have to pay. There is no liability recognized on the statements, but a description of the lawsuit and an estimate of the amount of loss is disclosed.
- c. Louise's has sued Bruce's Manure, a supplier of bovine manure, for defamation. Louise's legal counsel has advised that Louise's is 95% certain to win the lawsuit and estimates the amount of the proceeds to be between \$300,000 and \$350,000. A receivable for \$300,000 has been recognized.
- d. Louise's has sued Rimmer's Reeds, a supplier of water flowers for \$400,000. Louise's legal counsel has advised that Louise's is 90% certain to win, but cannot accurately estimate the amount that Louise's will collect. A receivable for \$400,000 has been recognized.

16. Academy Vending Machines Inc. (Academy), along with several other parties, is being sued for \$500,000 by a man who was badly burned when he spilled a cup of hot chocolate on himself at a skating rink.

Academy sold the hot chocolate machine to the rink during the year. At year end, Academy's lawyer and management team were unable to estimate the probability of a loss or the amount of the loss.

If Academy reports in accordance with ASPE, what is the appropriate treatment for the lawsuit in Academy's financial statements?

- a. Accrue \$500,000 and disclose that the outcome of the lawsuit is not determinable.
- b. Disclose \$500,000 and that the occurrence of the future event is unlikely.
- c. Accrue only a portion of the \$500,000, based on management's best estimate.
- d. Disclose \$500,000 and indicate that the result of the lawsuit is not determinable.

17. Company A is a public company. They have:

- o A total of 100,000 common shares outstanding.
- o Six months before year end, Company A issued 20,000 debentures that are convertible into a total of 10,000 common shares.
- o All of these debentures are outstanding at year end.

In computing diluted earnings per share calculation, the following would apply:

- a. The common shares arising from the convertible debenture issued during the period would be included from the date the current fiscal period began.
- b. Only the current common shares outstanding would be included in the denominator of the calculation.
- c. The common shares arising from the dilutive convertible debenture issued during the period would be included from the date of issuance of the debenture.
- d. The common shares arising from the convertible debenture issued during the period would only be included once converted.

18. As a government business enterprise, which accounting standards must the entity follow?

- a. *CPA Canada PSA Handbook*
- b. *CPA Canada PSA Handbook* for not-for-profit organizations or *CPA Canada PSA Handbook* (without 4200 series)
- c. *CPA Canada Handbook – Accounting* for publicly accountable enterprises (IFRS)
- d. *CPA Canada PSA Handbook* or IFRS

19. Which of the following is an objective of management discussion and analysis (MD&A)?

- a. To compare the company's results with industry benchmarks
- b. To supplement and complement the information in the financial statements by helping readers understand what the financial statements show and do not show
- c. To provide information on the management team — in particular, their experience
- d. To provide facts on subsequent events that are material and relevant to the reader

20. Jeff has just joined a company that provides a defined contribution pension plan as a benefit for its employees. Jeff has come to you, CPA, to understand this pension plan and the obligations of the employer and employee.

Which of the following statements represents a defined contribution pension plan?

- a. The employer has an obligation to ensure that the plan assets are sufficient to pay for the employee's pension benefit.
- b. The pension expense includes the current service cost, interest costs, and any returns on the plan assets.
- c. Annually, the employer pays fixed amounts that have been defined by the plan.
- d. The employer guarantees a set amount to be paid on the employee's retirement.

21. Which of the following is considered a non-monetary item?

- a. Accounts payable
- b. Customer list
- c. Foreign exchange gain/loss
- d. Sales

22. An entity's functional currency is the dollar (or equivalent) in the environment:

- a. Where the largest purchases occurred
- b. In which its CEO resides
- c. Where it has its head office located at the end of the year
- d. In which it operates day to day

23. On January 1, 20X3, Rider Corp. (Rider) issued share appreciation rights (SARs) to its management. The SARs will be cash settled.

What is the correct journal entry to derecognize the SARs assuming that they expire, and no payout is made?

- a. Dr. SAR liability; Cr. Contributed surplus
- b. Dr. Compensation expense; Cr SAR Liability
- c. Dr. SAR Liability; Cr. Compensation expense
- d. Dr. SAR liability; Cr Cash

24. Joe's Cycling Shop (Joe's), a private company selling both road and leisure bicycles, held a year-end sale. On December 31, Joe's year end, a customer wanted to purchase a road bike with a cost of \$3,000 and a sales price of \$3,500. The customer decided to pay \$200 to put the bike on hold under the agreement that he could walk away from the purchase within seven days and still have his money refunded. The accountant for Joe's recorded the following entry to recognize the arrangement on December 31:

Dr. Cash	\$200	
Dr. Accounts receivable	\$3,300	
Cr. Sales		\$3,500

You are performing the review engagement of Joe's. What adjusting entry, if any, would be required to account for this arrangement properly?

- a. Dr. Cost of goods sold \$3,000; Cr. Inventory \$3,000
- b. Dr. Sales \$3,300; Cr. Accounts receivable \$3,300
- c. Dr. Sales \$3,500; Cr. Accounts receivable \$3,300, Cr. Deferred revenue \$200
- d. Dr. Sales \$200; Cr. Deferred revenue \$200

25. Under IFRS, intangible assets that may be capitalized include:

- a. Internally generated goodwill
- b. Internally developed brands
- c. Overhead costs directly related to development activities
- d. Borrowing costs related to research activities

26. Carson Inc. spent \$25,000 to develop a new open office concept expected to improve efficiency. Carson Inc. has patented the concept and plans to implement it in its own office before licensing it out to other companies. No new equipment or other expenditures were incurred. Carson Inc.'s CFO, Jim Peltice, reviewed all costs and noted no research amounts. Jim believes that all costs incurred are development costs per IAS 38 *Intangible Assets*.

How should Carson Inc. record the \$25,000 redesign cost?

- Add the \$25,000 redesign cost to the cost of the office building as a betterment and amortize it over the remaining life of the building.
- Record the \$25,000 redesign cost as a specifically identifiable intangible asset if future benefit is likely and amortize it over the estimated period of benefit.
- Expense the \$25,000 redesign cost as a period cost.
- Record the \$25,000 redesign cost as goodwill since it improves the efficiency of the business.

27. Whirlwind Inc. (WI) received a grant from the Canadian government in the current fiscal year. The grant of \$200,000 was paid to WI before the December 31, 20X7 year end to offset salary costs to be incurred in fiscal 20X8. WI will be entitled to this grant if it employs a specified number of students during 20X8. WI management is certain that the required student employment threshold will be met. WI applies IFRS.

What is the appropriate journal entry for WI to record in fiscal 20X7 with respect to the government grant?

- | | | |
|--------------------|-----------|-----------|
| Dr. Cash | \$200,000 | |
| Cr. Salary expense | | \$200,000 |
- | | | |
|-------------------|-----------|-----------|
| Dr. Cash | \$200,000 | |
| Cr. Grant revenue | | \$200,000 |
- | | | |
|----------------------------|-----------|-----------|
| Dr. Cash | \$200,000 | |
| Cr. Deferred grant revenue | | \$200,000 |

- No journal entry is to be recorded until 20X8.

28. In 20X7, the federal government provided land to Bomb Inc. (BI) to use in its business operations into the foreseeable future. The land had a fair market value of \$55,000 and BI paid \$0 to the federal government for the land use. BI uses IFRS to prepare its financial statements.

Which of the following is the best description of how to account for this grant?

- a. The land was received for free by BI so a transaction is not recorded. However, note disclosure is required.
- b. BI has the option of recording the grant and related asset at fair value or assigning a nominal amount to the grant and related asset.
- c. BI records a deferred grant at fair value and recognizes the grant over the expected period of usage of the land.
- d. BI must obtain an appraisal for the land and record the grant and related asset at fair value.

29. Which of the following is a difference in impairment between IFRS and ASPE?

- a. IFRS requires an assessment of indicators of impairment at least every reporting date, while ASPE requires assessment only when events or a change in circumstances require it.
- b. Reversals of impairment losses are permitted under ASPE up to the original cost of the asset, while reversals are not permitted under IFRS.
- c. ASPE uses discounted cash flows in assessing the recoverable amount, while IFRS uses the undiscounted cash flows.
- d. Determining if impairment exists under the ASPE model compares the carrying amount to the higher of the value in use and the fair value less costs of disposal. The IFRS model compares the carrying amount to the undiscounted future net cash flows from use and disposal.

30. 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 has been identified as potentially impaired. Relevant information to assist management in accounting for the equipment properly is as follows:

Cost of equipment	\$200,000
Accumulated depreciation — equipment	\$40,000
Undiscounted future net cash flows associated with the equipment (estimated)	\$120,000
Fair value of equipment	\$100,000

What is the impairment loss to be reported by NBI with respect to this equipment?

- a. \$40,000
- b. \$60,000
- c. \$80,000
- d. \$100,000

31. ABC Co. is a privately owned company that reports under ASPE. For the year ending December 31, 20X6, the company reported earnings before tax of \$100,000. The following additional information is available:

Depreciation	\$20,000
Meals and entertainment	\$2,000
Maximum possible capital cost allowance (CCA) claim	\$25,000
Applicable tax rate	20%

What is the journal entry to record the total income tax expense for the year, assuming the company uses the taxes payable method and wishes to minimize taxes?

- a. Dr. Income tax expense \$20,000; Cr. Income taxes payable \$20,000
- b. Dr. Income tax expense \$19,200; Cr. Income taxes payable \$19,200
- c. Dr. Income tax expense \$20,200; Cr. Income taxes payable \$19,200, Cr. Future income tax liability \$1,000
- d. Dr. Income tax expense \$19,000, Cr. Income taxes payable \$19,000

32. Which of the following statements is true with respect to accounting for income taxes?

- a. Under IFRS, companies may choose to use either the deferred method or the taxes payable method.
- b. Under ASPE, companies must use the taxes payable method.
- c. Under IFRS, the deferred income tax asset and the deferred income tax liability accounts are classified as current or noncurrent, according to the type of asset or liability that created them.
- d. Under ASPE, companies choosing to use the future income tax method are not allowed to discount future income tax assets and liabilities.

33. Which of the following describes a change in an estimate?

- a. A company changes the presentation of operating expenses from “by function” to “by nature.”
- b. An enterprise switches from the gross method to the net method of presenting government grants.
- c. A temporary difference was treated as a permanent difference when calculating deferred taxes (IFRS)/future taxes (ASPE).
- d. The useful life of a building was originally estimated to be 20 years but, based on new information available, it was changed to 15 years as at the beginning of the year.

34. Which of the following circumstances requires prospective treatment?

- a. Your client amortizes computer hardware over four years and computer software over two years. While preparing the current-year financial statements, it is discovered that all computer hardware and software were amortized over two years.
- b. Your client purchased some new equipment last year and determined that it should be amortized over five years. In the current year, a new model of the equipment was announced and your client plans on replacing the equipment next year. Your client has revised the amortization period of the existing equipment to the two remaining years.
- c. In the current period, your client decided to switch from a straight-line method to a declining-balance method of amortization for a building your client owns because it determined that a competitor uses the declining-balance method of amortization for its buildings.
- d. In reviewing the amortization schedule for last year, an adding error was found, which resulted in an overstatement of prior-year amortization expense of \$10,000.

35. Red Rocket Inc. had a beginning inventory on January 1 of 300 boxes of fuses at a cost of \$9 per box. During the year, the following transactions occurred:

	Transaction	Boxes	Cost
February 10	Purchase	700	\$7
March 20	Sale	500	
October 30	Purchase	100	\$12
November 15	Sale	400	

Determine ending inventory using the FIFO (first in, first out) cost formula.

- a. \$1,900
- b. \$1,800
- c. \$1,666
- d. \$1,600

36. Kaltech manufactures toolboxes for trucks in Sudbury, and maintains a head office in Toronto. The toolboxes are painted in a paint booth that requires Kaltech to adhere to strict safety standards, including always having a safety supervisor on site. Kaltech has a manufacturing facility and a separate sales and administration building.

Which of the following would be included in the value of finished goods inventory?

- a. Safety supervisor's wages
- b. Amortization on the corporate headquarters
- c. Storage costs, once production is complete
- d. CEO's wages

37. Which of the following statements is true when evaluating whether a lease is a finance lease or an operating lease from the lessor's perspective under IFRS?

- a. A lease is classified as an operating lease if the lease term is for the major part of the economic life of the asset.
- b. A leased asset is classified as an operating lease if the leased asset is specialized.
- c. A leased asset could be classified as an operating lease if there is no bargain purchase option (BPO) in the lease.
- d. A leased asset is classified as an operating lease if the present value of the minimum lease payments is substantially all of the fair value of the leased asset.

38. On January 1, 20X6, Beatty Inc. entered into a five-year lease to acquire some machinery. Beatty reports under ASPE and is the lessee. The terms of the lease are as follows:

- o Lease payments of \$25,000 are made annually on the first day of the year.
- o Included in the annual lease payments are maintenance fees of \$2,000 per year.
- o The machinery reverts to the lessor at the end of the lease and the lease contains no renewal options.
- o Beatty uses straight-line depreciation for the machinery that it owns.
- o The machinery has a fair value of \$100,000 on January 1, 20X6, and has an estimated economic life of five years with no residual value.
- o Beatty's incremental borrowing rate is 11% per year.
- o The lease's implicit interest rate is 10%.

What is the present value of the minimum lease payments at the inception date?

- a. \$95,907
- b. \$94,356
- c. \$104,247
- d. \$102,561

39. During the year, MNR Ltd. entered into a contract to provide monthly consulting services to XYZ Inc. The contract is expected to last for 12 months. It commenced on March 1, and MNR's year end is October 31. The total value of the contract is \$120,000. XYZ paid the full amount on July 11.

Which of the following statements is correct with respect to MNR's October 31 financial statements?

- a. MNR should record \$40,000 as deferred revenue because the contract is not complete.
- b. MNR should record \$80,000 as deferred revenue because that is the amount earned.
- c. MNR should record \$120,000 as deferred revenue because the contract is not yet complete.
- d. MNR should record \$120,000 as revenue because that is the amount of cash received.

40. Waterworks Inc. reported maintenance service costs on a cash basis for 20X6 of \$100,000. In 20X5, Waterworks paid \$20,000 for maintenance services to be performed in 20X6. In 20X6, Waterworks paid \$7,000 in advance for services to be provided in 20X7. Waterworks received maintenance services of \$12,000 in 20X6, which were not paid until 20X7.

What amount should Waterworks report for maintenance services for 20X6, if it reports on an accrual basis?

- a. \$85,000
- b. \$105,000
- c. \$125,000
- d. \$139,000

41. You, CPA, are preparing a comparison of ASPE versus IFRS for a professional development session. You are looking at how ASPE and IFRS account for non-monetary transactions (NMTs). Which of the statements below is true?

- a. IFRS and ASPE standards are completely converged in terms of NMTs; there are no differences.
- b. IFRS requires non-monetary, revenue-generating transactions to be recorded at the fair value of the asset received when known.
- c. IFRS does not provide guidance on measurement of NMTs and ASPE does.
- d. ASPE does not provide guidance on measurement of NMTs and IFRS does.

42. Which of the following is a correct difference between IFRS and ASPE treatment of decommissioning obligations?

- a. IFRS requires the asset portion of the obligation to be depreciated over the life of the asset; ASPE does not require it to be depreciated.
- b. IFRS considers the increase in carrying value over time to be a borrowing cost; ASPE considers it to be an operating cost.
- c. IFRS uses the pre-tax rate to discount the future estimated costs; ASPE uses the rate after tax as the discount rate.
- d. IFRS recognizes the decommissioning obligation only when there is a legal requirement; ASPE requires the liability to be recorded when it is legally required or there is a constructive obligation.

43. Which of the following statements about fund accounting under accounting standards for not-for-profit organizations (ASPNO) is true?

- a. A self-balancing set of accounts for each fund
- b. Required for each fund
- c. Typically shown as a row for each fund in the financial statements
- d. Made up of net asset funds

44. Under ASNPO, which of the following statements is true?

- a. The deferral method facilitates tracking externally restricted contributions.
- b. The NPO may have one bank account that includes the balances of several funds.
- c. The statement of operations helps users understand which funds are available for use.
- d. The fund method tracks all contributions separately in their own fund.

45. You, CPA, are teaching your firm's co-op student about passive investments. You decide to compare how ASPE and IFRS account for passive investments. Which of the following statements is true?

- a. IFRS reports all passive investments at fair value, and ASPE reports passive investments at any of cost, fair value, or amortized cost.
- b. Under both ASPE and IFRS, investments adjusted to fair value at each reporting date require the changes in fair value to be reported in net income.
- c. For amortized cost investments, IFRS requires the use of the effective interest method, and ASPE permits a choice between the straight-line and effective interest methods.
- d. Accounting is the same under IFRS and ASPE for passive investments.

46. Brown Inc. (BI) reports an investment in bonds using the amortized cost method. The bonds have a face value of \$1,000,000 and were purchased on January 1, 20X7. The market interest rate is 8% and the bonds pay interest at a rate of 6%. Interest payments are made every June 30 and December 31. The bonds mature 10 years from the date of purchase, on December 31.

What journal entry records the acquisition of the bonds on January 1, 20X7?

a.

Dr. Investment in bonds	\$864,100	
Cr. Cash		\$864,100

b.

Dr. Cash	\$864,100	
Cr. Bonds payable		\$864,100

c.

Dr. Investment in bonds	\$1,000,000	
Cr. Cash		\$1,000,000

d.

Dr. Investment in bonds	\$664,496	
Cr. Cash		\$664,496

47. Under IFRS, which of the following can be capitalized to the cost of land?

- a. CEO's salary
- b. Construction materials
- c. Utilities
- d. Title search

48. The units of production method of depreciation:

- a. Assumes that the benefit derived from the asset is higher in its initial years
- b. Is the cost of the asset, net of the residual value, divided by the estimated useful life
- c. Is based on allocating the cost in proportion to the fraction of capacity used
- d. Is the book value of the asset multiplied by the depreciation rate

49. Solar Inc. (Solar) issued stock options on January 1, 20X2, to its employees. The options vest on December 31, 20X3, and expire on December 31, 20X9. The exercise price is \$4.00 and Solar's share price at the time of the grant was \$3.00.

Which of the following statements is correct with respect to these options?

- a. The share options cannot be exercised during the period January 1, 20X2, to December 31, 20X3.
- b. On the date of the grant, the fair market value of each option was \$0, since the share price is lower than the exercise price.
- c. When the options are exercised, the employee will receive \$4.00 per option from the company.
- d. The expense related to granting share options is recognized fully on the date of the grant.

50. Which of the following is a required disclosure under IFRS, but not ASPE?

- a. Nature of transactions
- b. Amounts
- c. Key management compensation
- d. Obligations

51. Which of the following is an example of a non-reciprocal non-monetary transaction?

- a. Stuart Co. gives up equipment with a fair market value of \$10,000 in exchange for \$8,000 cash.
- b. Stuart Co. gives up a car with a fair market value of \$15,000 in exchange for a similar car of a different colour that has a fair market value of \$15,000.
- c. Stuart Co. gives up a piece of art with a fair market value of \$20,000 in exchange for a donation receipt from a local charity.
- d. Stuart Co. gives up equipment with a fair value of \$25,000 in exchange for shares in Roger Co. worth \$20,000 and a note receivable for \$3,000.

52. When recording annual depreciation on an asset that includes decommissioning costs, the debit side of the entry would be:

- a. A fixed asset
- b. A decommissioning provision
- c. An interest expense
- d. A depreciation expense

53. Kingsmere Properties (Kingsmere) has just commenced 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.

What would be the most appropriate accounting policy recommendation?

- 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 when payments are received, because the amount to be recognized is measurable and collectable, and the performance obligation has been satisfied.
- c. Recognize payments into revenue when the related operating expenses are recorded, because this will ensure that revenues match their related expenses.
- d. Recognize revenue for the payments in accordance with the owners' wishes, because there appears to be uncertainty and, as such, the policy can match user objectives.

54. A company sells clothes wholesale from its factories overseas to department stores in Canada. The shipping terms are FOB Shipping. Under ASPE, at what point are revenues generally recognized in the financial statements?

- a. When the return period has expired
- b. When the clothes are shipped to the customer
- c. When future benefits of an asset expire
- d. When contracts/invoices are prepared

55. ASPE identifies two types of subsequent events:

- i) those that provide further evidence of conditions that existed at the financial statement date; and
- ii) those that are indicative of conditions that arose subsequent to the financial statement date.

How should event ii) be treated?

- a. Adjust the financial statements.
- b. Disclose within the notes to financial statements.
- c. No action is required, as long as the company is a going concern.
- d. Both options a) and b) above

56. Which of the following subsequent events would require an adjustment to the company's financial statements?

- a. Purchase of a business by the company subsequent to the financial statement date
- b. Change in foreign currency exchange rates subsequent to the financial statement date
- c. Initiation of bankruptcy proceedings subsequent to the financial statement date against a customer with a large accounts receivable balance at year end
- d. Commencement of litigation where the customer slipped on ice and fell after year end

57. Bedford Inc. (BI) acquired 25% of the shares of Red Inc. (RI) in the current fiscal year for \$150,000 with no fair value differentials. It was determined that BI's investment in RI should be accounted for using the equity method. During the year:

- o RI paid \$100,000 in dividends.
- o RI reported net income of \$500,000, which included \$20,000 (in profits) that resulted from sales of inventory to BI.

BI has yet to process the inventory it purchased from RI. This inventory will be processed next year and the resulting product will be sold to one of BI's customers.

What should be reported as "investment in RI" on BI's current-year statement of financial position? Ignore any potential tax consequences.

- a. \$150,000
- b. \$170,000
- c. \$245,000
- d. \$250,000

58. Company A has significant influence over Company B. Under IFRS, which one of the following factors could cause Company A's investment account to decrease?

- a. Purchase price
- b. Goodwill
- c. Net income
- d. Unrealized profit in inventory

59. Quencor Inc. started a new defined contribution plan this year. During the year, the company paid \$250,000 into this pension plan. At the end of the year, the current service cost was determined to be \$210,000, lower than expected. Any excess payment can be used to reduce next year's payment. What is the journal entry required to recognize the current service cost and the payment made during the year?

- a. Dr. Pension expense \$210,000; Dr. Prepaid asset \$40,000; Cr. Cash \$250,000
- b. Dr. Pension expense \$250,000; Cr. Cash \$250,000
- c. Dr. Pension expense \$210,000; Dr. Net defined pension liability \$40,000; Cr. Cash \$250,000
- d. Dr. Pension plan assets \$250,000; Dr. Pension expense \$210,000; Cr. Pension benefit obligation \$210,000; Cr. Cash \$250,000

60. On February 1, 20X6, Nickel Mining Co. (NMC) decided to use a forward contract to hedge the price of nickel on 150,000 pounds of nickel, which represents 30% of its annual sales. Currently, the spot price is \$6 per pound. NMC will settle the contract on July 31, 20X6. The company has entered into a forward contract to deliver 150,000 pounds of nickel on July 31, 20X6, at a forward price of \$7 per pound.

Which of the following statements BEST describes what this contract means for NMC?

- a. NMC will purchase 150,000 pounds of nickel on July 31, 20X6, and will have to pay \$1,050,000.
- b. NMC will deliver 150,000 pounds of nickel on July 31, 20X6, and receive cash of \$900,000 on delivery.
- c. NMC will deliver 150,000 pounds of nickel on July 31, 20X6, and receive the higher of the \$7 per pound or the spot price on that date per pound.
- d. NMC will deliver 150,000 pounds of nickel on July 31, 20X6, and receive \$1,050,000 on delivery.

61. For 20X5, Queen Company reported sales of \$60,000 on a cash basis. This amount includes \$8,000 that was collected during 20X5 but relates to sales made in 20X4. Also included in the cash collections is \$4,000 for customer deposits made on future sales that will occur in 20X6. In addition, the company collected \$10,000 in 20X6 for sales that occurred in 20X5.

What is the sales amount that should be reported in 20X5 on an accrual basis?

- a. \$48,000
- b. \$58,000
- c. \$62,000
- d. \$66,000

62. Which of the following items should be included in a company's management discussion and analysis (MD&A)?

- a. A description of the company's accounting policies
- b. Explanations of uncertainties and contingencies in accordance with the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- c. Industry and economic factors affecting the business
- d. The auditor's view on future performance

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

On a percentage of completion basis, how much gross contract fee revenue should Projack recognize at the current year end?

- a. \$52,950
- b. \$73,050
- c. \$90,200
- d. \$116,930

64. What is one of the objectives of government financial reporting?

- a. To show how much profit has been earned by the government in the reporting period
- b. To describe the government's financial position with respect to financing activities and its ability to meet its liabilities
- c. To provide a comparison of the budget to the actual results for the reporting period
- d. To provide disclosure on compensation paid to key employees of the government

65. On January 1, 20X6, Lessor Corp. entered into a contract to lease equipment to Lessee Co. with the following terms:

- o The lease term is five years, with payments due on the first day of the year.
- o The first payment is due on January 1, 20X6.
- o The equipment has a fair market value of \$300,000 on January 1, 20X6.
- o Lessee Co. has an incremental borrowing rate of 9% and Lessee Co. is aware of Lessor Corp.'s rate of 10%.
- o The equipment has an estimated useful life of six years.
- o Both the lessor and the lessee use straight-line amortization.
- o The annual lease payment equals \$70,733, which includes a \$4,000 reimbursement to Lessor Corp. for insurance costs paid by the lessor to the insurance company.
- o Both Lessor Corp. and Lessee Co. report under ASPE.

What is the present value of the minimum lease payments for this lease?

- a. \$299,900
- b. \$282,900
- c. \$294,900
- d. \$278,300

66. Recently, Zeko Inc. placed an order for new machinery from a German supplier. The machine will cost €1,000,000 and will be shipped and received eight months from now. At that time, the full payment is due.

Which of the following represents an eligible hedging instrument for this firm commitment?

- a. Sales that were priced in euros that have already been recognized and fully collected
- b. A loan payable in euros that will be outstanding for the next eight months
- c. A forward contract to buy euros
- d. Expenses that have been paid for in euros during the year

67. Which of the following statements regarding an audit of financial statements is true?

- a. They increase agency costs
- b. They increase agency risk
- c. They increase information risk
- d. They decrease information costs

68. Why are substantive procedures required in both a purely substantive audit approach and a combined audit approach?

- a. Control testing alone does not sufficiently address the risk of material misstatement.
- b. Tests of controls alone are too costly.
- c. It is more effective to audit a large number of transactions using substantive procedures.
- d. Substantive procedures can be performed after year end.

69. In which of the following situations would a practitioner use a purely substantive approach instead of a combined approach when planning the audit?

- a. The company's chief financial officer is a CPA.
- b. The company has many transactions.
- c. The company has controls that can be relied on.
- d. The company has few transactions.

70. Audit evidence is primarily gathered during which stage of the audit process?

- a. Stage 1 — Acceptance/continuance
- b. Stage 2 — Planning
- c. Stage 3 — Execution
- d. Stage 4 — Reporting and concluding

71. Audit, inherent, and control risk are all assessed as low; detection risk is assessed as high. Therefore, which of the following statements is true?

- a. Risk of material misstatement is assessed as high.
- b. The number of substantive tests is low.
- c. Controls cannot be relied on.
- d. Fraud risk is assessed as high.

72. Which of the following would improve the quick ratio?

- a. Sell fixed assets to reduce accounts payable.
- b. Increase bank indebtedness to purchase equipment.
- c. Issue common stock to purchase inventory.
- d. Aggressively collect accounts receivable.

73. During the year, LMN Inc. had:

- o sales of \$2,500,000
- o gross profit of \$1,000,000
- o net income of \$125,000

Inventory was \$275,000 at the beginning of the year and \$300,000 at the end of the year. Assume the company used average balances when measuring its performance. What is the inventory turnover for the year?

- a. 5 times
- b. 5.22 times
- c. 5.45 times
- d. 8.70 times

74. You, CPA, are concerned about one of your firm's clients, Farm Acre Foods Inc. (Farm). Although very profitable, you suspect that Farm may be experiencing problems paying off short-term debt. Which one of the following analytical review calculations will highlight this concern?

- a. Gross profit percentage
- b. Inventory turnover ratio
- c. Quick ratio
- d. Times interest earned

75. Why is conducting an analysis of a company's financial ratios beneficial?

- a. It is a central component of value-chain analysis.
- b. It identifies external opportunities for the company to pursue.
- c. It uncovers critical industry trends.
- d. It provides insights into a company's financial state.

76. Which of the following statements for financial statement analysis is true?

- a. A high debt-to-equity ratio is a negative qualitative factor.
- b. A high gross-margin-percentage ratio is a negative qualitative factor.
- c. A high dividend-payout ratio is positive qualitative factor.
- d. A high days-payable-outstanding ratio is a positive qualitative factor.

77. If the practitioner is unable to obtain sufficient appropriate audit evidence related to all accounts, classes of transactions, and disclosures in the financial statements, then the practitioner is unable to:

- a. Continue with the engagement
- b. Issue an unmodified opinion
- c. Use a combined audit approach
- d. Rely on management's statements as fact

78. Which of the following statements regarding audit evidence is true?

- a. Sufficiency is the measure of the quality of audit evidence.
- b. The higher the relevance and reliability of evidence, the lower the quality of results
- c. The higher the quality of evidence, the less evidence may be required.
- d. Reliability refers to the connection between audit procedures and assertions.

79. Obtaining written communication from a third party and footing a subledger are examples of which two types of substantive procedures, respectively?

- a. Inspection and observation
- b. Confirmation and recalculation
- c. Analytical reviews and reperformance
- d. Inquiry and reperformance

80. Which one of the following statements describes analytical procedures?

- a. Analytical procedures are only used in the planning stage of an engagement.
- b. Analytical procedures help to identify unusual or unexpected balances that require further assurance work.
- c. Analytical procedures are not used in the planning stage of an engagement.
- d. Analytical procedures are used exclusively on the income statement to analyze the reasonability of accounts as compared to budget and prior year.

81. Substantive procedures are designed to:

- a. Detect material misstatements at the assertion level
- b. Detect material misstatements at the overall financial statement level
- c. Detect all misstatements.
- d. Detect changes from the prior year's financial statements.

82. During the year, Peter and Barbie were divorced. The divorce agreement states Peter is to pay Barbie \$2,000 per month in spousal support and \$2,500 per month in child support beginning April 1 of the current year. Which of the following statements is true?

- a. Peter's current-year deduction from net income as a result of the payment of spousal and child support is \$nil.
- b. Peter's current-year deduction from net income as a result of the payment of spousal and child support is \$18,000.
- c. Barbie will include \$22,500 in her net income as a result of receiving spousal and child support.
- d. Barbie will include \$40,500 in her net income as a result of receiving spousal and child support.

83. Assume the following for Mark's Warehouse Ltd. (Mark's):

Net income for tax purposes	\$530,200
Less	
Net capital losses of other years	(5,000)
Charitable donations	<u>(50,000)</u>
Taxable income	<u>\$475,200</u>

During the year, Mark's sold some shares in a public company for \$100,000. The shares cost \$60,000. This was the only sale of assets in the year. Mark's did not earn any interest or dividend income during the year.

What is the correct amount of active business income (ABI) to be used for determining one of the lesser of amounts for the small business deduction for Mark's for the year?

- a. \$460,200
- b. \$510,200
- c. \$515,200
- d. \$475,200

84. Harry and Vera are married. Harry's net income for the year was \$65,000 and Vera's net income was \$10,500. Both Harry and Vera had a significant amount of dental work completed in the year, with receipts totalling \$2,300 for Harry and \$1,100 for Vera. Based on the information provided, on whose tax return would you include the medical expenses in order to optimize the tax benefit for Harry and Vera?

- a. Both Harry's and Vera's medical expenses should be claimed on Harry's tax return.
- b. Both Harry's and Vera's medical expenses should be claimed on Vera's tax return.
- c. Harry's medical expenses should be claimed on Harry's return and Vera's medical expenses should be claimed on her return.
- d. Harry and Vera will be indifferent between including the total of the medical expenses on either taxpayer's return.

85. Cleanco Supply Ltd. sells cleaning supplies. The company is considering implementing new employee benefits. Which of the following statements about the taxation of the proposed benefits to the employees is true?

- a. If Cleanco Supply paid premiums under a private health services plan for the employee, a taxable benefit would result.
- b. Cleanco Supply could supply a built-in vacuum system worth \$400 to an employee in recognition of a five-year term of service every five years without this being considered a taxable benefit.
- c. Cleanco Supply could supply a fitness club membership worth \$600 to all employees without this being considered a taxable benefit.
- d. If Cleanco Supply offers loans at rates below the CRA's prescribed rates, the loans are not considered a taxable benefit to the employee.

86. Which of the following is a taxable benefit to an employee?

- a. Payments made for a private health services plan
- b. Payment for a \$400 gold watch to commemorate six years of service
- c. Payment for tuition for a course on "building good relationships with clients"
- d. Payment of an employee's spouse's travelling expenses incurred while accompanying the employee on a business trip

87. Matilda owns two rental properties, both of which were acquired three years ago. You have been provided with the following information for the two properties for the current year:

	Property I	Property II
Undepreciated capital cost	\$160,000	\$190,000
Revenue	\$ 33,000	\$ 26,200
Expenses (1)	<u>24,600</u>	<u>29,100</u>
Net rental income	<u>\$ 8,400</u>	<u>\$ (2,900)</u>

Note 1: Expenses include property taxes, insurance, interest, and maintenance and repairs. The tenants pay the utilities.

What amount of net rental income or loss will be included in Matilda's personal tax return for the current year?

- a. \$(900)
- b. \$0
- c. \$(8,500)
- d. \$2,000

88. An employee will be required to include a taxable benefit in his return if:

- a. The employee uses a company car for business purposes.
- b. The employee is a senior accountant with a public accounting firm, and the firm pays for the employee's CPA membership dues.
- c. The employee has a loan from his employer at a rate that is below the prescribed rate but pays the interest within 30 days of the end of the calendar year.
- d. The employee uses his own automobile for company business, and the company reimburses him at a reasonable rate acceptable to the Canada Revenue Agency (CRA).

89. A personal income tax client of your firm has decided to set up a small business selling semi-precious gemstones, beads, and jewelry-making supplies. The estimated sales for the first year of operations are \$25,000. Therefore, the business does not have to collect and remit GST to the Canada Revenue Agency (CRA). What is the advantage to the client of registering for a GST account before the store's annual sales reach \$30,000?

- a. The business income will be taxed at a lower rate.
- b. The business can charge GST and not have to remit the GST collected to the CRA.
- c. The business can recover GST paid on qualifying purchases, including startup costs.
- d. The business will receive priority treatment in dealing with the CRA.

90. Telco Inc., a public corporation, received a notice of reassessment for its Year 5 taxation year. The notice was dated July 27, Year 9. Telco has a November 30 year end. The original assessment for Year 5 was dated March 31, Year 6. Telco does not agree with the reassessment. By what date does Telco need to file the notice of objection?

- a. May 31, Year 9
- b. August 27, Year 9
- c. October 25, Year 9
- d. November 30, Year 9

91. Maurizio is a full-time student enrolled in doctoral studies at an accredited university in Canada studying chemistry. During the year, he received a scholarship of \$8,000 and a research grant of \$7,000. Which of the following is true with respect to Maurizio's income inclusion for the scholarship and research grant?

- a. Maurizio is not required to include either the scholarship or the research grant in his net income for the year.
- b. Maurizio is required to include the \$8,000 scholarship in his net income.
- c. Maurizio is required to include \$15,000 in his net income, the total of the scholarship and the research grant.
- d. Maurizio is required to include the \$7,000 research grant in his net income.

92. A personal tax client, Juliet, has asked you to explain the tax rules related to charitable donations made by her and her spouse, Ellis. Which one of the following statements is *false*?

- a. Juliet and Ellis can include the total of their charitable donations on either of their tax returns.
- b. The lower-income spouse, Ellis, must claim the charitable donations.
- c. Either Juliet or Ellis can claim the charitable donations.
- d. Any unclaimed charitable donations can be carried forward for a period of up to five years.

93. Which of the following is a criterion that the CRA considers in assessing if an individual is an employee or a contractor?

- a. Who determines the method of payment?
- b. Does the individual have any close family ties to senior management?
- c. Has the individual incorporated?
- d. With whom does the chance of profit/risk of loss rest?

94. Evergreen Co. has computed its net income for tax purposes for Year 7 as follows:

Income from business	\$200,000
Dividends from taxable Canadian corporations	30,000
Dividends from non-affiliated foreign corporations	15,000
Taxable capital gains	10,000
Net income for tax purposes	<u>\$255,000</u>

Evergreen made charitable donations of \$5,000 to registered charities in the year. In addition, the company has the following carryover balances at the beginning of the year:

Net capital loss (Year 3)	\$12,000
Non-capital loss (Year 4)	13,000
Charitable donations (Year 6)	2,000

What is Evergreen's taxable income?

- a. \$180,000
- b. \$178,000
- c. \$195,000
- d. \$197,000

95. You are calculating the value of a brand-name piece of equipment using the market-based approach.

Which of the following is the **most** appropriate factor to consider when evaluating the comparability of recent sales transactions?

- a. Net operating income earned from using the asset
- b. Location, age, and operating condition
- c. The appropriate discount rate
- d. Obsolescence

96. You are valuing a company using a capitalized cash flow approach. You have determined that the company has the following:

- maintainable earnings before interest, tax, depreciation, and amortization (EBITDA) of \$200,000
- sustaining capital reinvestment net of taxes of \$50,000
- a tax rate of 30%
- a capitalization rate of 10%
- a present value (PV) of the undepreciated capital cost (UCC) tax shield on existing assets of \$20,000
- interest-bearing debt of \$130,000

What is the equity value of the company?

- a. \$1,290,000
- b. \$920,000
- c. \$790,000
- d. \$770,000

97. You have been asked to value a business by an owner who intends to shut the business down due to lack of productivity. The owner still has control over the assets and is not being forced to sell them immediately.

Which valuation approach should you use?

- a. Capitalized cash flow
- b. Adjusted net asset
- c. Orderly liquidation
- d. Forced liquidation

98. Lazer Force Company (Lazer) is a manufacturer of cold medication with a strategic objective of improving operational efficiency. The company is reviewing possible ways to reduce costs related to distribution. Any arrangement will be temporary and will initially last for three years. Which of the following is the most likely type of arrangement to meet Lazer's objectives?

- a. Acquire control of a company that distributes similar products in similar markets to Lazer.
- b. Outsource the logistics of product distribution.
- c. Undertake a joint venture with a competitor to share distribution resources.
- d. Purchase bonds in a publicly listed pharmaceutical distribution company.

99. Currently, Zisor Co. (Zisor) has two business units: one producing hair products and another producing facial creams. The company just completed a strategic review and decided to completely divest its facial cream manufacturing operations. The company wants to sell off the entire facial cream manufacturing operation and receive cash to use for other business purposes.

Which of the following transactions would be the most suitable course of action?

- a. Perform an equity carve-out of the facial cream business retaining at least 85%.
- b. Spin off the facial cream division as a separate entity.
- c. Sell the net assets of the facial cream division for cash.
- d. Sell shares of Zisor to a strategic buyer.

100. The definition of fair market value for valuation purposes includes which of the following terms:

- a. Acting at arm's length
- b. Closed and restricted market
- c. Lowest price available
- d. Under a compulsion to act