PERFORMANCE ANALYSIS REPORT
2012 UFE
Enclosed is your performance analysis report on the 2012 Uniform Evaluation. Section A contains an indicator by indicator analysis of your performance by simulation. Section B contains a detailed indicator by indicator analysis of your performance by competency area, and Section C of the report contains a summary of the reviewers’ general findings and an analysis of your performance by essential professional skill.

The report analyzes your performance on primary indicators only. The Board distinguishes between the mission-critical issues and other relevant issues by classifying them as primary indicators and secondary indicators of competence respectively. To attain a pass standing, candidates must address the issues in the simulations that are considered mission-critical. Your answer must therefore be appropriately focused on the primary indicators.

We encourage you to read this report in conjunction with the 2012 UFE report.

Section A

Section A reports the reviewer’s findings by indicator by simulation. The checklist is designed to help you identify which of the commonly exhibited weaknesses displayed by the candidate population you personally exhibited, on an indicator by indicator basis. The information will allow you to see where you missed a primary indicator completely or where you fell short of the requirements on certain indicators.

If you did not address an indicator at all, the box "Did not address this indicator" will be marked with an “x” by the reviewer. If you addressed the indicator but did not demonstrate any of the flaws listed, the boxes will be left blank by the reviewer. If you did demonstrate a flaw, that box will be marked with an “X” by the reviewer and a comment will be made.

Section B

Section B reports the reviewers’ findings by competency area. The information in this section allows you to further analyze the information you received indicating your standings by competency area (“green/yellow/red”). It allows you to gain a better understanding of the weaknesses that contributed to the standing you received.

The information in Section B is a re-sorting, by competency area, of the reviewers’ indicator by indicator comments which are found in Section A. The checklist of points under each indicator heading is made up of the tendencies exhibited by the candidate population based on the Board of Evaluator’s expectations at Competent. The checklist questions are designed to highlight your major weaknesses on each indicator. To help you understand which of those weaknesses you in particular exhibited, “X”s are made by the reviewers in the relevant boxes. Displaying many of the identified weaknesses may have prevented you from being assessed as Competent. By focusing on the areas where there are several “X”s and by examining the reviewers’ comments by competency area, you will be able to identify what elements of a “competent” response you were missing.

Beside each box, you will notice a word. This word represents the “sorting” category that is used to present the reviewers’ findings by professional skill in Section C of your report.
Section C of the report is designed to help you identify your major weaknesses in essential areas such as communication, role, ranking and other exam writing skills. Each of the reviewers answered the same general questions and the findings are summarized for you. Where they were able, reviewers have made recommendations for improvement.

In addition, the reviewers’ indicator specific comments are sorted into professional skill groupings. Each of the groupings is clearly defined so that you know which of the essential professional skills that underlies a professional response requires further development. The groupings used consist of the following:

1) Identification:
   - Define the issue correctly, including underlying issues
   - Rank the issues i.e., figures out what the critical issues are

2) Analysis:
   - Apply knowledge
     - Technical (Applies Handbook correctly, correct techniques used e.g. cash flow, net present value, etc.)
     - Link to case facts i.e., goes beyond just stating the rules and considers the particular case facts in the analysis
   - Calculate
   - Evaluate alternatives (Pros and cons, implications of different options, assess validity of options, etc.)

3) Integration: sees the bigger picture, able to consider impact of one analysis or conclusion on another in their response

4) Recommendation:
   - makes logical/practical choice- one that flows from the analysis
   - good judgment considering the decision factors identified

5) Communication: clear explanations provided/viewpoint and “thinking pattern” are made evident

6) Ethics: professionalism, need for a specialist; knowing limitations are demonstrated.
Primary Indicators

Comp - Primary #1 (PMR)
The candidate identifies areas whereby HandySide was not reporting in accordance with ASPE and provides recommendations.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not address sufficient number of the significant accounting issues for HandySide.

Your discussion of one or more of the accounting issues for HandySide lacked depth (i.e. use of case facts, exploring alternatives, etc.).

In your discussion of the drywall inventory rebate, you correctly identified that "the 2.8M rebate received in February 2012 is actually related to the 2011 year end but is currently recorded in 2012 year end. This is an error and will have to be adjusted." However, you did not seem to understand the impact this would have on the financial statements since you concluded that "this will increase the bottom line for 2012." In fact, it would decrease net income if it were reversed out of 2012 cost of sales (increase in expenses). Also, you could have provided additional depth to your analysis by discussing the other significant issue related to the drywall inventory rebate, which was the impact not receiving a rebate in 2012 would have on the valuation. In your discussion of the intangibles, you provided some depth in your discussion by attempting to apply information from the case to the criteria for capitalization for both the logo and the e-commerce module. However, for the general website costs, you simply stated that "the general website costs does not meet ASPE criteria. Therefore, the 1,423,133 should be expensed and not capitalized." You did not provide any justification for this conclusion. A better response would have explained that the general website costs needed to be expensed because the general website cannot be separated from the company.

Your response included technical errors or deficiencies when discussing the accounting treatment under ASPE.

You concluded that the logo was properly capitalized as an intangible "as paid outside design firm and has future benefit as made to rebrand the company with new logo and slogan." This is incorrect as it is not reasonable that it could be separated from HandySide. There is also a specific requirement that states that internally generated brands, mastheads and items similar in substance shall not be recognized as intangible assets (HB 3064.47).

You discussed accounting issues for VHL rather than HandySide.

Your response included technical errors or deficiencies when discussing the accounting treatment under ASPE.

You concluded that the logo was properly capitalized as an intangible "as paid outside design firm and has future benefit as made to rebrand the company with new logo and slogan." This is incorrect as it is not reasonable that it could be separated from HandySide. There is also a specific requirement that states that internally generated brands, mastheads and items similar in substance shall not be recognized as intangible assets (HB 3064.47).

Comp - Primary #2 (AS)
The candidate considers whether the independent auditors can use the work of the internal audit function and provides specific audit procedures to substantiate net income before tax for the price adjustment clause.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not analyze whether the independent auditor could rely on the work of the internal audit function.

While you addressed the issue of whether the independent auditor could rely on the work of the internal audit function, your analysis lacked depth (i.e. use of case facts, exploring alternatives, impact, etc.)
SECTION A - FINDINGS BY INDICATOR BY SIMULATION

You did not provide a sufficient number of relevant procedures for substantiating HandySide's net income before tax.

On page 2, Alex asks you to "suggest procedures the internal audit department could perform to substantiate the high-risk account balances in the financial statements". This indicated a requirement to isolate areas of risk and to suggest audit procedures to address the key accounts and assertions impacted. Your response could have benefited from identifying a greater number of procedures. You suggested only 2 procedures that were linked to areas of high risk identified in your accounting discussion and they were not tied specifically to the appropriate risk. For example, you identified in your accounting discussion that the drywall inventory rebates were a high risk area, and suggested that internal audit "review the general ledger of inventory accounts and make sure that no credits have been applied to the accounts." While this would show whether rebates had or had not been recorded in 2012, the real question that the auditors will have is whether or not there is going to be a rebate in 2012. A better procedure would have addressed this risk by confirming with the vendors that there would not be a 2012 rebate.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

This indicator had two aspects - you were required to analyze and comment on the reliance by the external auditors on the work of the internal audit department AND to suggest procedures that the internal audit department could perform on the high risk accounts to assist the external auditors. In your discussion of the reliance of the external auditors, you identified some of the factors they would consider and you appropriately used the information from the case to assess whether or not the external auditors would rely. For example, you noted that the external auditors "will consider the IA's expertise and knowledge. Christine has a CA and CIA designation and the staff member must be designated accountants and beginning their CIA training program which would be a great asset in showing that IA is sophisticated to do the internal audit work." Your response would have been stronger had you clearly identified the factors that the auditors would consider under CAS 610 and then applied the case facts to each one; however, you indirectly showed that you understood what types of factors would be important for the auditor's decision even though you did not specifically name them. However, your coverage of the procedures was not sufficient. You did not adequately identify areas of high risk and suggest procedures that specifically tested these areas.

Comp - Primary #3 (MDM)

The candidate analyzes the two replacement systems and the associated implementation issues.

YOU DID NOT ADDRESS THIS INDICATOR.

In many cases your discussion of the issues was either very brief or did not extend beyond classifying the case facts as advantages and disadvantages to HandySide. In order to provide additional depth you needed to either explain why it was an advantage or disadvantage or explain what the implication was for HandySide. For example, when discussing the Virtual Pre-Fab system, you stated that the "annual cost will be 135,000 assuming monthly cost of 11,250 ((7500+1500)/2))." In order to add value to this statement, you needed to explain the implication. For example, you could have explained that having a monthly payment, rather than a large upfront payment (as is the case with Ground-Up) could be an advantage for HandySide given the current cash crunch. Integrating case facts into your analysis demonstrates depth.

You did not discuss a sufficient number of the advantages and disadvantages of the Ground-Up and Virtual PreFab systems.

You did not discuss a sufficient number of implementation issues associated with the two replacement systems.

Item D of the Agenda asked you to review and comment on the Ready-To-Move (RTM) software proposals and specifically asked you to "raise potential implementation issues." Your response did not address the implementation issues, such as the lack of an internal IT department, the production manager's workload during implementation, the lack of support from the manager and employees, or the need to involve the users in the implementation. The only suggestion you made with respect to implementation was to "recommend that we have the production supervisor be part of the new system implementation so that we have someone who understands the new system." It appears that you may need to spend more time reading the case, since the production supervisor is in fact the only HandySide employee who is involved.
SECTION A - FINDINGS BY INDICATOR BY SIMULATION

You did not recognize that continuing with the current Build-it 3.1 system was not a viable option for HandySide.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

There was a lot of repetition of case facts in your response without any added value or analysis. When analyzing an issue, always try to explain the implication in order to demonstrate depth in your response. In addition, your coverage of the implementation issues was weak. Perhaps you need to spend more time when reading the case and planning your response to ensure you appropriately address all the requirements.

Comp - Primary #4 (FIN)

The candidate analyzes the three options for financing the distribution centre (DC) acquisition.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not attempt a quantitative analysis of the three financing options for the distribution centre.

Your quantitative analysis of the three financing options contained significant errors and/or omissions.

While you attempted a quantitative analysis of the three financing options, it does not appear that you realized that in order to make a valid comparison between the three alternatives, you had to present them all on an equal footing. In order to do this, the missing element for each option needed to be determined: the interest rate for Option 1, the monthly payment amount for Option 2, and the term of the loan for Option 3. Then, the three alternatives could have been compared in a meaningful way. For Option 1, you assumed an interest rate of 8% and used this as the discount rate for calculating the net present value of the payments. For Option 2, you also calculated the present value of the payments, using 8% as the discount rate, but your calculation was flawed because you only considered the principal component of the payments, and not the interest. For Option 3, you attempted to calculate the term, but your calculation was flawed because you did not consider the interest component, only the principal. You calculated the present value of the payments; however, instead of using a consistent discount rate of 8%, you used 12%. Consequently, you were not able to compare the three options in a meaningful way, and your analysis provided little value to Alex.

You did not provide a qualitative analysis of the three financing options for the distribution centre.

You recognized the need to provide a quantitative analysis of the three financing options; however there were also qualitative factors that needed to be considered in the analysis of the financing alternatives in order to provide a complete and useful analysis to Alex. Qualitative elements that should have been discussed included the down payments, the payment flexibility, the monthly payments and the personal guarantees.

Your qualitative analysis of the three financing options lacked breadth and/or depth (i.e. use of case facts, exploring alternatives, impact, etc.).

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

You understood the importance for HandySide to acquire the distribution centre and you attempted a quantitative analysis of the three options presented in the case. However, your calculations contained significant errors which resulted in an analysis that provided little value to Alex for his decision making process. In addition, you did not provide a qualitative assessment of the three options. In order to improve your answer, be sure to always consider both qualitative and quantitative aspects of the financing alternatives presented.

Comp - Primary #5 (MDM)

The candidate analyzes the profitability of the divisions and provides recommendations.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not recognize the need to prepare a divisional analysis for purposes of evaluating the profitability of the Trade Contractors division.
SECTION A - FINDINGS BY INDICATOR BY SIMULATION

Your quantitative analysis of the Trade Contractors division contained significant errors and/or omissions.

You did not demonstrate an understanding of the fact that Head Office costs should not be allocated across divisions based on gross-profit.

You did not provide a valid and/or clear conclusion on whether the Trade Contractors division should be closed.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

You performed well on this indicator. Your response included a quantitative analysis to determine whether the Trade Contractors division should be closed. Your analysis appropriately reallocated the costs to the divisions based on the information provided at the bottom of page 9. For instance, you allocated occupancy costs based on square footage and reallocated the equipment based on actual usage by the divisions. In addition, you understood that Head Office costs were not relevant and appropriately excluded them. You then used your analysis to draw appropriate conclusions on whether the Trade Contractors divisions should be closed. You demonstrated your competence in Management Decision Making through your analysis. Well done!

Comp - Primary #6 (TAX)
The candidate analyzes the tax issues for HandySide.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not address a sufficient number of tax issues associated with the tax indemnity clause in the HandySide sale agreement.

The agreement with John for the purchase of HandySide included a tax adjustment clause. This clause required John to reimburse VHL for any additional tax assessed to HandySide for the period prior to January 1, 2012. Agenda item G presented several tax considerations and there were also tax implications related to other issues such as the rent free period, or the loan interest being paid by HandySide on VHL’s behalf. Your response addressed only the potential tax liability relating to the charitable donations, the leased vehicle, and personal expenses, but omitted consideration of many other issues including the timing issues related to the clause, the investment losses, the plane, the life insurance, and the VHL interest. In order to fully demonstrate your competence it is necessary to cover the issues in sufficient breadth.

Your response included significant technical errors or deficiencies when addressing the tax issues associated with the tax indemnity clause.

Your analysis of the tax issues associated with the tax indemnity clause lacked depth.(i.e. use of case facts, exploring alternatives, impact, technical knowledge, etc.)

In your discussion of the vehicle lease, you explained that "CRA limits lease cost for tax purposes to be under 800 per month;” however, you did not consider that the lease would no longer be deductible after John retired (because there was no longer a business purpose to this expense). This would have added additional depth to your discussion.

Your analysis of the tax issues focused on personal tax implications to John Maarten rather than tax implications to HandySide.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

It appears that you understood the need to identify and discuss potential outstanding tax liabilities, however, your coverage of this indicator was limited to only a few of the many issues presented in the case. In order to demonstrate your competence and provide a comprehensive report to your audience you need to identify and discuss a wider range of issues.

Comp - Primary #7 (GOV)
The candidate analyzes the draft terms of reference for the finance and audit committee, identifies weaknesses and recommends improvements.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not identify any issues with respect to the composition of the new Finance & Audit Committee.
SECTION A - FINDINGS BY INDICATOR BY SIMULATION

You did not identify any issues with respect to the powers, duties and responsibilities of the new Finance & Audit Committee.

In your response, you stated that "the audit committee should not be touching these management functions to stay independent." While you recognized that there were problems with the current responsibilities identified in the draft terms of reference, you did not make specific recommendations about which duties listed should be completed by management, and which, if any, would be appropriate duties for the Audit Committee.

Your analysis of the issues with respect to the draft terms of reference lacked breadth and/or depth (i.e. use of case facts, exploring alternatives, impact, etc.).

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

You correctly identified the need to analyze the composition and responsibilities of the Finance & Audit Committee. You recognized that "the CDO and controller be taken off the audit committee [and that] there is also a representative of the independent auditors on the audit committee which could potentially violate their independence as their may be a self review threat." However, you did not sufficiently discuss the powers, duties and responsibilities of the Audit Committee. You made one blanket statement about them not performing management's duties, but did not give specific examples using the information from the case.

Comp - Primary #8 (PQ)

The candidate understands the significant financial constraints faced by HandySide, the flaws in the strategic direction contemplated by Alex and the importance of the price adjustment clause.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not identify the significant financial constraints faced by HandySide.

Although you were not specifically directed to discuss this issue, recognizing it and bringing it to the client's attention would have been extremely useful. The acquisition of HandySide by Alex has put the company in a much weaker financial position than it was prior to the purchase. Factors that should have led you to address this issue were: the repayment of John's shareholder loan, borrowing $75 million from CNVF to purchase the shares of HandySide, $14 million in bank indebtedness on HandySide's balance sheet, the demand loan from John for $10 million, the potential purchase of the distribution centre, as well as the replacement of the RTM manufacturing software. All of these factors should have led you to recognize that HandySide's financial position was very weak and needed to be addressed.

While you recognized certain financial constraints faced by HandySide your analysis lacked depth.

You did not identify the flaws in the strategic direction being contemplated by Alex Victor.

As part of Agenda Item B-1 on page 6 of the simulation, it also stated that "HandySide has entered into preliminary discussions with a home improvement retail chain in Atlantic Canada that would see HandySide acquire 65 retail stores with revenues totaling over $225 million. The current owner of the chain will retire in approximately five years and has approached Alex about a potential acquisition in 2017." HandySide's operating performance and its profitability have deteriorated significantly, it has incurred a significant amount of debt over the past year and there are significant debt repayments that need to be made to CNVF over the next 10 years. All of these factors would suggest that a significant expansion into Atlantic Canada should not be a priority at this time. Recognizing this issue and supporting it with case facts would have been appropriate.

While you recognized that there may be flaws in the strategic direction contemplated by Alex Victor, your analysis lacked depth.

You did not recognize the importance of the price adjustment clause.
While you recognized the importance of the price adjustment clause, your analysis lacked depth.

(i.e. use of case facts, exploring alternatives, impact, etc.)

While you understood the importance of determining if HandySide's Net Income would fall below the $5-million threshold and if HandySide would be able to invoke the price adjustment clause, your analysis did not go beyond calculating a revised net income and concluding that it would fall below $5M. However, recognizing and informing the client that this one-time cash injection would not solve all of HandySide's current operational issues nor would it fix its current financial situation and supporting this with case facts would have been appropriate.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

You did a good job in recognizing that Alex's strategic direction regarding the big box retailers was flawed and not in line with HandySide's current divisional performance. You noted that "the big box store has lower prices than us so it is not a good strategy to locate near their stores as price is a key success factor in the industry," and recommended "that we locate more HandySide stores in the rural areas where there is only one home improvement store which is less competition to deal with." This was a good start. Your response would have been strengthened by also recognizing that HandySide's financial condition has deteriorated significantly since the purchase by Alex or by recognizing how this financial condition affects Alex's strategic plan to acquire another home improvement retail chain in Atlantic Canada.

Overall Comments

Communication

Was the response well organized with a logical flow?

Your response was well organized and the use of headings made your response easy to follow. You made good use of exhibits by referencing adjustments in your exhibits to explanations. This was very helpful in understanding your calculations.

Did the candidate understand their role?

It appears that you understood your role as you attempted to discuss all of the primary issues.

Was the response easy to read and understand?

You made good use of point form and of paragraphs to divide the issues in your response.

Prioritizing and Ranking

Did the response appear appropriately focused on the primaries? (vs. the secondaries)

You did not address the secondary indicator. This was appropriate in the circumstances.

Did the response appear balanced?

You had well balanced coverage of the major issues.
II - 1 Fire in the Sky Inc.

Primary Indicators

II-1 Primary #1 (AS)
The candidate does some preliminary planning for the year-end review engagement, concentrating on areas requiring extra work.

You did not address this indicator.

You did not perform any preliminary planning for the review engagement or your planning did not adequately address the relevant considerations.

You did not provide review procedures for a sufficient number of the relevant risk areas.

While you provided a valid review procedure for inventory, you did not attempt to provide procedures in any other areas. In order for your memo to be useful to the partner, you were expected to provide procedures over more of the risk areas. For example, the partner would have wanted assurance over many other areas such as revenue from fireworks shows, revenue from holiday sales, revenue from regular retail sales, the HVAC system, and the equipment exchange.

You did not properly explain why the procedures you suggested would be useful or what risk it would address.

You provided procedures that were either too generic, not practical or that did not address the risks related to the current review engagement.

You approached the engagement issues from an audit perspective rather than from that of a review (i.e. plan, procedures).

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

Your response indicated that you had some understanding of what the partner required, as you discussed some of the planning considerations and you attempted to provide procedures over inventory. However, you did not provide a sufficient number of specific, relevant procedures that directly addressed the areas of risk in this year's review. As a result, you were unable to demonstrate the required level of competency for this Assurance indicator.

II-1 Primary #2 (PMR)
The candidate discusses the accounting issues that need to be addressed by FSI in order to comply with ASPE.

You did not address this indicator.

You did not identify a sufficient number of the relevant accounting issues to be addressed by FSI.

Your discussion of one or more of the ASPE accounting issues lacked depth (i.e. use of case facts, exploring alternatives, etc.)

Your response included technical errors or deficiencies when discussing the accounting treatment under ASPE.

You did not provide a valid and/or clear conclusion as to the appropriate accounting treatment for the relevant issues.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

Good analysis of the issues! You demonstrated a clear understanding of the relevant accounting issues and provided the partner with a good understanding of how they should be accounted for under ASPE. Good analysis of the issues! You demonstrated a clear understanding of the relevant accounting issues and provided the partner with a good understanding of how they should be accounted for under ASPE.

II-1 Primary #3 (TAX)
The candidate provides recommendations regarding the tax issues presented.
SECTION A - FINDINGS BY INDICATOR BY SIMULATION

YOU DID NOT ADDRESS THIS INDICATOR.

You did not address a sufficient number of Ella's tax questions. identification

You did not focus your response on the most significant tax issues. identification

You did not discuss the tax issues presented in sufficient depth (i.e. use of case facts, technical knowledge, etc.). analysis - knowledge

Your response included technical errors or deficiencies when addressing the tax issues. analysis - knowledge

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

You were able to identify some of the relevant tax issues based on the questions raised by Ella, and provided a response that sufficiently demonstrated a technical understanding of how the Income Tax Act would be applied to Fire in the Sky.

II-1 Primary #4 (MDM)

The candidate evaluates the two systems and compares them against the ERD requirements.

YOU DID NOT ADDRESS THIS INDICATOR.

Your analysis did not provide a comparison of the two options against a sufficient number of the ERD requirements. identification

You did not sufficiently analyze both options. analysis - evaluate alternatives

You did not identify a sufficient number of other key decision factors that should be considered, or relevant additional information that should be obtained when assessing the two systems. identification

In addition to the stated ERD requirements, the simulation provided you with facts regarding the two systems that would have an impact on Kevin's choice. Kevin also specifically asked for "suggestions of anything else he or Ella should find out about the systems". As a result, you were expected to discuss some of these additional considerations in your analysis of the two options. In your response, you only considered the deadline imposed by the ERD and did not consider any of the other qualitative factors or other additional information such as the experience of each supplier, specific features available or the additional information required.

You suggested other key decision factors that should be considered or additional information that should be obtained without explaining how they would impact the decision. analysis - knowledge

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

In order to be useful to the client, your analysis of the inventory control systems would need to adequately consider both the ERD requirements laid out in the simulation, as well as other factors and needed information, as both of these could have a significant impact on the decision. Your response did not adequately consider the additional considerations or information needed.

II-1 Primary #5 (PQ)

The candidate identifies that FSI is not operating effectively due to Kevin's increased absence, and presents possible solutions to address the situation.

YOU DID NOT ADDRESS THIS INDICATOR. identification

You identified some issues caused by Kevin's absence but did not realize the pervasive nature of the problem integration

You did not explain how Kevin's absence was having an impact on the operations of FSI. integration

You did not provide a useful and/or valid recommendation to address the issues relating to Kevin's absence. recommendation

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

While this was not specifically directed to, the information presented in the simulation through several comments made in Ella's letter was expected to alert you to this issue. You did not recognize the issues surrounding Kevin's increased travel and the operational impact on Fire in the Sky.
Overall Comments

Communication
Was the response well organized with a logical flow?
Your response was organized into sections based on the required areas of the simulation, making it easy to follow.

Did the candidate understand their role?
You did not always correctly identify your role. For example, although you addressed all of the "directed" requirements, you did not recognize that it was also your role to point out the pervasive issue that was having an impact on the operations of Fire in the Sky, namely Kevin's absence while attending competitions. In addition, you did not always consider the information that the users would need. For example, Kevin would need to know not only how the two potential inventory tracking systems compared to the stated requirements, but also what additional qualitative factors should be considered in evaluating the options. You did not provide him with these considerations.

Was the response easy to read and understand?
There were no difficulties encountered in reading or following your response. There were no difficulties encountered in reading or following your response.

Prioritizing and Ranking
Did the response appear appropriately focused on the primaries? (vs. the secondaries)
There were no secondary indicators for this simulation.

Did the response appear balanced?
You did not address the pervasive issue in the simulation, but your response was well-balanced between the remaining issues and requests.
II-2 MMB

Primary Indicators

II-2 Primary #1 (AS)

The candidate provides examples of the required controls to ensure the proper collection, storage and distribution of breast milk.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not identify a sufficient number of the required key controls.

You identified the need to implement controls to address the risks relating to the donor health and the donor training issues. However, you did not identify the need to implement controls to address the risks relating to confidential information, donor bottle labeling, donor shipping frequency, donor shipping temperature, milk batching, batch identification, pasteurizer operation, bottle expiration, bottle tampering, storage temperature, distribution order, distribution shipping temperature. You were asked to help Louise develop the necessary controls for MMB and therefore needed to address a greater number of required controls in order for your response to be useful to Louise. Although you attempted to address some of the controls required to ensure the proper collection of breast milk, not all of the controls you suggested were addressing a key risk for MMB. For example, regarding the donor health issue, you indicated the following: "W: Currently the questionnaires are done verbally: I: There is a risk that some questions are not asked therefore not covering all the risk factors and not following the guidelines. R: I recommend that all questionnaires be done in writing to ensure completeness of responses so that the women are actually qualified to donate breast milk". However, the weakness ("questionnaires done verbally") you identified and the recommendation you provided ("questionnaires done in writing") would not address the risk that MMB could be accepting milk donated by unhealthy mothers later on in the process. Although it is a risk for MMB to be accepting unhealthy mothers as donors, the greater risk in this situation was that MMB was at risk of accepting healthy donors that would become unhealthy later on in the process, and that this would never be detected. A stronger response would have recommended that MMB periodically re-screen their donors and that donors be asked to update their health questionnaire for any changes. This control would ensure that MMB did not accept milk from a donor who had successfully passed the current screening process but then contracted a virus or illness after the initial screening.

You approached the required controls from an audit perspective (i.e. ways to audit the process) rather than from an operational perspective (i.e. controls to be implemented by MMB).

You did not adequately explain how the controls you identified would ensure the proper collection, storage or distribution of breast milk.

You did not provide a control for each operational risk you identified or you provided Louise with controls that were either too general, poorly explained or impractical.

You attempted to address the risk that MMB could be accepting contaminated milk when you discussed the fact that "women may not read the collection kit and therefore not washing hands or the breast pumps properly". However, you recommended the following: "R: I recommend that we hire staff to assist with hand washing procedures and that our staff washes the breast pumps personally to ensure that it is cleaned properly for the next use". This recommendation would be impractical because it would require MMB to hire staff, and also the mothers would need to send back the breast pumps to MMB or the mothers would need to go to the clinic to have the breast pumps washed. A stronger response would have recommended that MMB try to reduce the possible mistakes that a mother could make throughout the different steps of the donation process by providing training materials to the mothers and having support available through a helpline for example.
II-2 Primary #2 (MDM)

The candidate calculates the cost per 120 ml bottle of breast milk that MMB needs to charge in order to cover its operating costs.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not attempt to calculate the total cost per 120 ml bottle of breast milk to be charged.

Your calculation of the total cost per 120 ml bottle of breast milk to be charged contained significant errors and/or omissions.

You attempted to calculate the total cost per 120 ml bottle, however, the nature of the errors in your calculation demonstrated your lack of understanding of the mechanics of the calculation. For example, in your calculation of the total fixed costs, you omitted the salaries of $275,000 which was a material amount. Salaries needed to be included as they are a recurrent expense and needed to be considered in the price to charge per bottle. You also omitted the office expenses, which needed to be considered as well in the price to charge per bottle. Then, in your calculation of variable costs, you miscalculated the shipping cost per bottle. You calculated "Per 25 Case Costs: Avg. Shipping: $25.00" for a total of shipping cost of $40,150 whereas the correct calculation was (39,600/25) bottles times 10,00$ for a total shipping cost of 15,840$. It appears that you misunderstood the case facts by taking a cost of $25.00 whereas the simulation facts were "$10 per 25 bottles of milk". You ended up with a cost per bottle of $4.45. A stronger response would have calculated the total fixed costs of $318,100 and total variable costs of $125,158 ($3.16 per bottle) for a total cost per bottle of $11.19 ($443,258 for 39,600 bottles).

Your analysis of the qualitative factors MMB should consider when setting a price was either weak or incomplete.

You did not address any of the qualitative factors MMB should consider when setting a price per 120 ml bottle, such as the possibility of selling to a combination of public hospitals at $8, private clinics at $20 and to women directly at $40, the impact of paying donors or the feasibility in meeting projected sales goals. Your response would have been stronger if you had discussed some of these issues. For example, as the total cost per bottle of $11.19 is above the public hospital price of $8 and below the private clinics price of $20, you could have suggested that Louise sell some bottles to private clinics in order to subsidize sales at only $8 to public hospitals.

II-2 Primary #3 (PMR)

The candidate discusses appropriate accounting policies to implement at MMB.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not identify a sufficient number of appropriate accounting policies to implement at MMB.

Your response included technical errors or deficiencies when discussing the accounting policies to be implemented under GAAP.
SECTION A - FINDINGS BY INDICATOR BY SIMULATION

Your discussion of one or more of the accounting policies lacked depth (i.e. use of case facts, exploring alternatives, etc.).

You did a good job of discussing the $100,000 one-time federal government grant, as you recommended that under the deferral method, the $100,000 would need to be deferred and amortized over the life of the capital assets. However, in your discussion of the $75,000 donation from Dr. Oldmen, you stated that "Louise Donation: - We need to ask Louise whether her donation is restricted to any use so we know how to account for it. - Since MMB is using deferral method the revenue would be recognized once the fund is spent on its intended purpose. For the time being it should be recorded as deferred revenue." Although you were not wrong with your statement, you did not clearly realize that Louise made no indication that this donation had any external restriction placed upon it. Therefore, you did not recognize that it was an unrestricted contribution and that under the deferral method, it should be recorded immediately. Even without concluding that this was an unrestricted contribution, you could have explained to Louise how to account for the contribution in the event that there was no restrictions put on it. Because Louise mentioned that she had limited accounting knowledge, it was important for you to explain to her how this unrestricted contribution differed from the restricted contribution from the federal government.

You did not provide a clear recommendation as to which accounting policy choice best suited MMB for each of the accounting issues you identified.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

You were close to demonstrating your competence on this performance measurement and reporting indicator. You identified some of the accounting policies to implement at MMB, however, some of your discussions lacked depth. Note that it is important to explain each of the items you identify in sufficient depth to allow your audience (Louise in this case) to have access to all of the essential information required to understand your recommendations and make decisions. It was particularly important in this case given the fact that Louise has limited accounting knowledge.

II-2 Primary #4 (PQ)

The candidate discusses important decisions Louise needs to make about MMB.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not identify a sufficient number of the relevant decisions Louise needs to make about MMB.

You only addressed how Louise should determine which babies are most deserving of the milk donations. You did a decent job of discussing this issue. However, you did not address the other issue she specifically asked about regarding whether she should compensate donor mothers for their donations of milk. A stronger response would have identified the possible impact of paying donor mothers. For example, paying donor mothers might increase the number of donors but at the same time, might encourage mothers in financial difficulty to withhold breast milk from their baby in order to have more breast milk to sell.

Your discussion of one or more of the important decisions Louise needs to make lacked depth (i.e., lack of insight provided, lack of alternatives provided).

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

You were close to demonstrating your competence on this pervasive qualities and skills indicator. You did a good job of discussing how to determine which babies are most deserving of the milk donations. However, you needed to go further and also discuss her decision of whether she should pay donor mothers.
SECTION A - FINDINGS BY INDICATOR BY SIMULATION

Overall Comments

Communication

Was the response well organized with a logical flow?

In general, your response was well organized with a logical flow.

Did the candidate understand their role?

You did a good job of identifying each of the key areas required by the simulation, and attempted to address all of these areas.

Was the response easy to read and understand?

Your response was generally easy to read and understand.

Prioritizing and Ranking

Did the response appear appropriately focused on the primaries? (vs. the secondaries)

There were no secondaries in the simulation.

Did the response appear balanced?

It appears that some of the time you spent discussing the management decision-making, performance measurement and reporting, and pervasive qualities and skills indicator may have been better spent addressing the assurance indicator of this simulation. This may have resulted in a more complete and balanced response. For example, regarding the assurance indicator, you did not provide much discussion as you typed a little more than half a page of discussion and provided only a few controls to be implemented by MMB.
II-3 Primary Indicators

II-3 Primary #1 (PMR)

The candidate provides appropriate analysis of the accounting issues.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not identify a sufficient number of the relevant accounting issues.

You did not focus your response on the most significant accounting issues.

Your discussion of one or more of the IFRS accounting issues lacked depth (i.e. use of case facts, exploring alternatives, etc.).

You addressed the government grant issue, however you did not discuss the criterion for recognition.

You concluded that "Since only 25% of the project is complete then only this portion of the grant should be recorded as revenue which should be 200,000. Income has been overstated by 600,000 as a result" however you did not provide appropriate analysis to show how you came to that conclusion.

You addressed the GST reassessment when you included an adjustment in your exhibit, however you did not discuss this issue in your response. In you exhibit, you noted that "Recorded as prepaid expense when it should be expensed". However, you did not recognize that the reassessment has the characteristics of a contingent asset. A better response would have discussed this issue in your accounting section and considered the IFRS criteria related to contingent assets. The reassessment meets the definition of a contingent asset and contingent assets cannot be recognized unless their realization is virtually certain. In this case, DFT cannot be certain that the courts will allow the money to be returned, and as a result, virtual certainty does not exist and no asset should be recorded.

Your response included technical errors or deficiencies when discussing the accounting treatment under IFRS.

You addressed the issue of Indo-Tech sales and recognized the significance of the 60 day period, but your response contained technical errors as you wrote: "An argument that revenue can be recognized:- DFT is confident that Indo will take the inventory shortly. - Per the agreement any inventory not taken within 60 days of arrival is considered sold to Indo and shall be segregated for removal by Indo as soon as possible. - An argument that revenue cannot be recognized:- That ownership of the inventory transfers to Indo once it has taken place. Conclusion: Based on the contract it is more like a bill and hold sale. Since Indo has initiated the sale and the inventory is complete and segregated for Indo and DFT has complied with agreement revenue can be recognized. Therefore DFT is correct with recognition of revenue". As the 60 day period for the product shipped to the warehouse after August 2nd has not yet passed (nor will it pass by the year end date), it is incorrect to recognize this revenue. This transaction did not have the characteristics of a bill and hold arrangement.

You did not provide a valid and/or clear conclusion as to the appropriate accounting treatment for the relevant accounting issues.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

Although you identified a number of accounting issues such as the Indo-Tech sales, the government grant, the Zeus inventory and the GST reassessment, you did not discuss these issues in sufficient depth. When discussing accounting issues, it is important to use the appropriate IFRS criteria and apply specific case facts to the discussion. The issues you raised needed to be discussed in more depth to demonstrate competence in Performance Measurement and Reporting. Note that you also recognized the need to recalculate EBITDA to see if a bonus should be recorded at year end.

II-3 Primary #2 (AS)

The candidate identifies the impact of the accounting issues on the planning of the audit and suggests procedures to be performed.
SECTION A - FINDINGS BY INDICATOR BY SIMULATION

YOU DID NOT ADDRESS THIS INDICATOR.

You did not discuss the components of the audit plan (risk, materiality, approach) in sufficient depth.

You did not identify a sufficient number of the relevant procedures to be performed for the year-end audit.

You clearly recognized the need to provide audit procedures, but your response did not provide adequate breadth of coverage. You provided a valid procedure regarding the Zeus inventory. However, there were many other areas that needed to be addressed in relation to the accounting issues of significance. For example, your accounting discussion included discussions on the Indo-Tech sales and the government grant. This was a direct request, and the partner would have required a more thorough analysis in this area.

You did not properly explain why the procedure you suggested would be useful or what risk it would address.

You provided procedures that were either too generic, not practical or that did not address the risks related to the current audit.

You provided several procedures that were quite generic and could have been applied to any audit. While some of these may have been useful, the partner directly asked for "the accounting issues of significance... and the procedures to be performed". For example, in the area of Indo-Tech sales, you suggested "We are concerned about the validity of whether DFT has met all its obligations to Indo. There is a risk that revenue is not recoded properly resulting in a material misstatement. We should review the agreement between DFT and Indo to see if DFT indeed has done all that is required in order to recognize revenue". While the Indo-Tech issue was a significant area, your procedure was too general and did not specify what terms, etc. you would be looking for in your "review of the agreement". As the 60 day period was key, it was important to recognize it would need to be supported in your audit work. A better response would have outlined the need to ascertain the validity of the 60 days as part of the agreement with Indo-Tech, and then to perform procedures on goods shipped to Safe Storage and/or removed from the India warehouse to determine when the 60 day period began and would end (e.g. examine shipping documents for good to Safe Storage to determine date of shipment; look at receiving documents on their end to assess date of receipt (and when the 60 day period begins)).

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

Your response adequately addressed the partner's request to assess the impact of the accounting issues of significance on the year-end audit planning, as your audit plan gave an adequate discussion of risk and approach, as well as considered the need for an adjustment to the preliminary materiality as a result of the number of accounting errors that had been identified. While you also recognized the need to provide procedures to be performed, your discussion in this area was not adequate. You provided a valid and well explained procedure in the areas of the Zeus inventory. However, providing procedures in several other areas of high risk as well as a better explanation of the procedures you provided was required to make sure the audit had all of the important risks covered.

II-3 Primary #3 (PQ)

The candidate discusses the potential for management bias towards a higher EBITDA due to their bonus.

YOU DID NOT ADDRESS THIS INDICATOR.
You did not identify the fact that management may have acted on their bias to increase EBITDA.

You have noted the potential for management to manipulate the numbers or the accounting treatment of some transactions when you wrote "Management has bias to increase revenues and decrease expenditures to take advantage of new bonus plan this year". However, you did not conclude or say that they have demonstrated a bias in the choice of the accounting treatment to help them to get their bonus. A more complete response would have concluded that it was clear that many of the accounting decisions were made to inflate the net income and therefore inflate EBITDA to exceed the $14 million threshold in order for management to achieve the bonus threshold. You commented (when discussing the Zeus inventory) that "This may show a bias of management to understate expenses to take advantage of the bonus" which does not convey that management had acted on their bias.

You did not support your conclusion of management's bias to increase EBITDA with specific examples.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

Although you were able to identify some instances of management manipulation throughout your response, when you wrote "Management has bias to increase revenues and decrease expenditures to take advantage of new bonus plan this year". You did not step back to perform an overall assessment of whether there was management bias. You not only had to identify the potential bias, you had to address the fact that management had acted on their bias and support your discussion with examples. This was important in order to ensure that the partner clearly understood your concern.

Overall Comments

Communication

Was the response well organized with a logical flow?

You provided a good structure to your response, providing audit procedures at the end of your accounting analysis for each issue. Your response was organized into sections based on the required areas of the simulation. You used headings and sub-headings to clearly identify what area you were addressing. This made your response very clear and easy to follow.

Did the candidate understand their role?

Although you realized that management had a potential bias towards a higher EBITDA due to the new bonus program (when you said "Management has bias to increase revenues and decrease expenditures to take advantage of new bonus plan this year"), you did not conclude that they had acted on their bias. As an auditor, part of your role was to advise the partner of any evidence of potential intentional manipulation of the financial statements, as a result of accounting decisions made by management.

Was the response easy to read and understand?

There were no difficulties encountered in reading or following your response. Your response was easy to understand. Your thoughts were complete even where point form was used. You made good use of exhibits by referencing adjustments in your exhibits to explanations. This was very helpful in understanding your calculations.

Prioritizing and Ranking

Did the response appear appropriately focused on the primaries? (vs. the secondaries)

You did not address the secondary indicator (the structure of DFT's new bonus plan). It is appropriate to focus on the primary indicators and only address the secondary if you have additional time.

Did the response appear balanced?

You attempted to address all of the required areas, and your response appeared to be reasonably balanced between these issues.
III-1 Chinook Trailers Limited

Primary Indicators

III-1 Primary #1 (PMR)

The candidate calculates the value of the WIP Inventory and the warranty provision, as required for the completion of the audit.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not attempt to quantify both the WIP and the warranty provision.

Your calculation of the value of the WIP Inventory and/or the warranty provision contained significant errors and/or omissions.

In your calculation of the work-in-process, you failed to accumulate the costs incurred in previous stages for each of the trailers. For example, if a trailer was in stage 3 of production, you only included the costs associated with stage 3 and did not include the costs associated with stages 1 and 2. As a result, your calculation was incomplete. Your attempt to address the overhead in WIP was not logical. After accumulating the direct labour and materials cost, you attempted to remove the non-manufacturing portion of the overhead components, but there was no overhead in the direct materials and labour to begin with, so your adjustment did not make sense. Instead, you should have accumulated the direct materials and labour, calculated the total overhead related to production and then allocated to the production overheads between finished goods and work-in-process. Ideally, the allocation would have been based on the proportion of labour hours in inventory to the maximum capacity in labour hours. As a result of failing to accumulate the previous stages labour and materials and then removing amounts for overhead rather than adding them, you ended up with a value of $17,818, when a more reasonable value would have been approximately $256,000.

Your attempt to calculate the warranty provision was inconsistent in its approach and contained several errors. Although you used the correct repair estimates ($15,000 for Traditional and $30,000 for Yukon), as well as the estimated return percentages (10% and 5% for Traditional; 5% and 2% for Yukon), the number of trailers that you included for the two models did not make sense. For Traditional, your calculation was based on 130 trailers, which was the amount sold in 2010. However, the warranty expense for these sales should have been recorded in 2010 and you did not consider the 40 Traditional trailers that were sold in 2011. For the Yukon, your calculation was based on 30 trailers, which was not the number that were actually sold in 2011 (70), but rather the number that had been sold and recalled in the 1st quarter. Your calculation of the warranty provision (accrual) at the end of 2011 should have included just the 2nd year of the 2010 Traditional sales, plus the 1st and 2nd year of both the Traditional and Yukon 2011 sales (40 and 70 units respectively).

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

While you attempted to address both of the required accounting calculations, your response did not adequately address either the warranty provision or work-in-process inventory. A reasonable and complete discussion of both elements was required in order to address Steve's request and provide information for the completion of the audit. In addition, both of your calculations contained a number of significant errors and omissions.

III-1 Primary #2 (FIN)

The candidate normalizes earnings in order to estimate the purchase price of Chinook.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not include a sufficient number of normalizing adjustments in your calculation of the purchase price.
SECTION A - FINDINGS BY INDICATOR BY SIMULATION

Your calculation of the purchase price contained a significant number of errors.

In your calculation of the purchase price, you failed to multiply the total value of the business by 49%. The simulation mentions that the price is determined based on five time normalized EBITDA and Super is only purchasing 49% of the outstanding common shares of Chinook. Hence, the total value of the business should be multiplied by the percentage of ownership at stake.

You did not address the gross margin adjustment or did not integrate any of the accounting adjustments into your calculation.

The simulation highlighted a number of adjustments of varying importance and complexity. It was particularly important to discuss the more significant and complex issues such as the accounting adjustments and the gross margin adjustment. While you were not expected to discuss all of them, it was important to address at least one of these adjustments in sufficient depth, which you did not do.

Your conclusion on the purchase price indicated a lack of understanding of the valuation approach.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

Your response on this indicator was lacking in both depth and breadth. There were a large number of potential adjustments and it was critical that you addressed the significant adjustments in sufficient depth. In this case, the gross margin adjustment and the accounting adjustments were critical, but you failed to address either of them.

III-1 Primary #3 (GOV)

The candidate helps establish a risk management plan for Chinook.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not identify a sufficient number of risks in your risk management plan.

Your analysis addressed only the need for a specialized workforce and the risk of not performing proper testing, but failed to discuss other relevant risks such as the risk of having design flaws, the risks associated with loading capacity issues, the breach of safety standards, the risk of paying out bonuses prematurely or the risk of not performing proper market research before launching the product. The simulation highlighted a number of potential risks of varying importance and complexity. While you were not expected to discuss all of them, it was important to address a reasonable number of the risks, which you did not do.

Your risk management plan did not cover multiple requested areas of risk, such as design, manufacturing and launch.

Your discussion of one or more of the risk areas lacked depth (i.e. use of case facts, impact, etc.).

You did not provide a way for the risk to be managed or the solution you provided was too vague, not valid or impractical.

Your recommendation to address the risks associated with specialized workforce was: "We did not have the specialized work force to manufacture the product. This resulted in the poor manufacturing and lots of rework done which is very costly. I recommend that we have the technical expertise required to manufacture sophisticated products like the Yukon to prevent poor worksmanship". However, this recommendation was too vague because it doesn’t provide management with a plan on how to avoid this problem in the future. A better response would have suggested the need for proper training of the workforce or perhaps the hiring of the appropriate, specialized employees who would be able to manufacture according to the specifications outlined.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

You did not address a sufficient number of risks. There were many case facts addressing different risks related to the introduction of a new trailer and the CEO had specifically requested help in this area. Your response on this indicator was approximately half of one page, which was not sufficient to provide a risk management plan that addressed the product introduction process from development, through manufacturing to product launch as was requested of you.

III-1 Primary #4 (PQ)

The candidate raises issues with the sale that Chinook may not have considered.
SECTION A - FINDINGS BY INDICATOR BY SIMULATION

YOU DID NOT ADDRESS THIS INDICATOR.

You did not identify a sufficient number of issues to be considered in the decision to sell.

Your discussion of one or more of the issues lacked depth (i.e. use of case facts, impact, etc.).

Your discussion of the fit between Chinook and Super did not draw sufficiently on case facts. You identified that there was a difference between the two companies when you said "The newspaper stated that Super's CEO is known for making bold moves and acquiring other innovative companies. Since Chinook is an innovative company Super's intention may be to take over Control as the article mentioned they are looking for the latest innovative product which may be targeting the Yukon. That was their main intent in early negotiations", but did not use case facts to illustrate what the difference was and how it might affect future operations. For example, you could have contrasted elements of the two cultures: Chinook focuses on product development while Super focuses on acquiring products that are ready for the market; Chinook likes to make careful and deliberate decisions while Super makes "fast and tough" decisions; Chinook focuses on high quality, while Super focuses on high growth. Alternatively, you could have discussed how the situation where Super shut down a product line at a recently acquired manufacturer paralleled the recent problems with Yukon but how the difference in management style resulted in a different outcome (Chinook overcame their initial problems and improved the Yukon while Super discontinued the new brake product in order to reduce potential future losses).

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

While you identified that the offer from Super posed a significant risk to Chinook, your discussion did not cover the issues in sufficient depth to make a convincing case to management. In this case, it was necessary to demonstrate both that the risk of losing control was significant and that the consequences of losing control could be severe based on Super's strategy and history. You did a good job discussing how the gross margin threshold would be difficult to achieve based on recent results and indicated that Super's objective appeared to be to acquire control of Chinook, but did not discuss why the loss of control should be of concern to Steve (i.e., that Super would probably run the company differently based on what we know about the two companies).
Overall Comments

Communication

Was the response well organized with a logical flow?

No

The memo portion of your response was not well done. For example, your memo was only 1.5 pages, but within your text you had only two sections ("Potential loss of control and other issues" and "Overall conclusion"). You also had headings for "Calculation of purchase price" and "Audit issues", but did not discuss these items in your memo, just saying "see exhibit #" (your memo should incorporate the results of your exhibits and discuss any important qualitative considerations). The exhibits themselves were well organized and easy to follow.

Did the candidate understand their role?

Yes

You appeared to understand your role and responded to the simulation appropriately.

Was the response easy to read and understand?

Yes

Your response was clearly written and easy to read and understand.

Prioritizing and Ranking

Did the response appear appropriately focused on the primaries? (vs. the secondaries)

Yes

This simulation did not include secondary indicators.

Did the response appear balanced?

No

You appear to have spent more of your time on the quantitative analysis (Indicators 1 and 2) than you did on your memo, with 3 full pages of exhibits but only 1.5 pages of text (indicators 3 and 4). Given that the shortcomings in indicators 1 and 2 were primarily technical, spending more time on these did not benefit you. However, on indicators 3 and 4, you were showing a good understanding of the issues and were on the right track, but just needed to discuss more issues and offer more support from the case facts.
SECTION A - FINDINGS BY INDICATOR BY SIMULATION

III-2 Razor's Edge Laser Cutting Inc.

Primary Indicators

III-2 Primary #1 (AS)

The candidate discusses the potential going concern issue and its impact on the auditor's report.

You did not address this indicator.

You did not recognize that there was a potential going concern issue.

You did not address a sufficient number of the indicators of a potential going concern issue.

Your discussion of the potential going concern issue lacked depth (i.e. use of case facts, impact, etc.).

You did not provide valid and/or clear steps that could be taken to mitigate the indicators of a potential going concern issue.

You discussed some of the indicators of a potential going concern issue for Razor. You did a good job explaining the potential impacts on Razor. However, you did not suggest any steps that could be taken to mitigate the going concern issue or given examples of evidence that you needed to obtain from the client to refute the going concern issue. For example, you identified that Razor no longer having the financial support of the parent company was an indicator of a potential going concern issue: "The parent company DE has indicated that it will not inject any more cash to Razor in the future which will limit their future financing options." However, you did not indicate what would be the impact on your audit work. A more complete response would have suggested that we look for evidence that Doyle has reconsidered the repayment terms of the last injection and is willing to invest more, or that other sources of financing have been looked into. Also, you identified that the covenant breach was an indicator of a potential going concern issue for Razor: "The bank covenant seems to be violated and if violated for more than 3 quarters then it can demand the entire loan to be paid on demand". However, you did not propose any action to be taken. A more complete response would have suggested that we contact the bank to find out about whether or not they intend to call the loan. Another way to mitigate the going concern issue would have been to ask Razor to provide a forecast which includes a plan for achieving the ratio going forward.

You did not properly explain the impact of the potential going concern issue on the audit report.

You did not recognize that the potential going concern issue could have an impact on our audit report. A more complete response would have explained that if the going concern assumption is appropriate but that there is material uncertainty, the financial statements should contain appropriate disclosure of the factors contributing to the uncertainty and an Emphasis of Matter paragraph needs to be added to the audit report in reference to that disclosure. You could also have explained that if the financial statements were to be prepared using an alternative basis, we might be able to express an unmodified opinion.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

You did a good job explaining the potential going concern issue for Razor. However, you did not put enough emphasis on the impact that this situation could have on your audit work and the audit report. You needed to provide more support to your conclusion by either explaining that an Emphasis of Matter paragraph needed to be added to the audit report or providing ways Razor could mitigate the indicators of a potential going concern issue.

III-2 Primary #2 (PMR)

The candidate provides appropriate analysis of the accounting issues.

You did not address this indicator.

You did not identify a sufficient number of the IFRS accounting issues that arose as a result of events that occurred during the year.
Your discussion of one or more of the IFRS accounting issues lacked depth (i.e. use of case facts, exploring alternatives, etc.).

You appropriately identified some of the IFRS accounting issues such as "If it is determined Razor has a going concern issue the financial statements would have to be stated a liquidation value." You also adequately discussed that particular issue. However, even though some of your other discussions came to the right conclusion, they were not always sufficiently supported with handbook guidance or were not always linked to specific case facts. For example, you recognized that the Manley Mann account receivable was probably overvalued: "To date there is discrepancy of 225,000 which may be potentially be written off if MM is unwilling to pay". You came to the right conclusion; however, you did not adequately support your conclusion. A more in depth response would have used case facts as evidence to support the impairment such as the fact that Manley Mann was paying according to the market price of steel instead of the amount of the invoice. You mentioned that there was a "dispute between Razor and MM" but did not explain what this dispute was about and how it could affect the valuation of A/R.

Your response included technical errors or deficiencies when discussing the accounting treatment under IFRS.

You appropriately identified the impact of the going concern issue on the financial statement. However, some of your other discussions were technically incorrect or incomplete. For example, you recognized that the injection from Doyle should be considered a liability: "Arguments for recording as long term debt: - DE has stated that it wants Razor to pay back the 2M in the next few years which is more than a year so long term." which was a good use of the case facts. You came to an appropriate conclusion, but your technical discussion was incomplete since you did not present the IFRS standard. A stronger discussion would have explained that under IFRS, to be presented as equity, the instrument must not include a contractual obligation to deliver cash or another financial asset to an entity and that the presentation should be based on the overall substance rather than the form of the transaction. In this particular case, the fact that the parent company wants to be repaid in the next few year was an indication that the transaction had the substance of a liability and not that of an equity transaction.

You did not provide a valid and/or clear conclusion as to the appropriate accounting treatment for the relevant IFRS issues.

You presented an adequate conclusion regarding the accounts receivable, the preferred shares, and the impact of the going concern issue on the financial statements. However, certain of your other conclusions were technically incorrect. For example, you discussed the value of the scrap inventory and concluded: "Therefore, the 800,000 should be expensed as part of COGS and inventory is lowered by this amount." This conclusion was not appropriate since even if part of the inventory came from off-cuts, those scrap pieces still had some value on the market. A stronger response would have calculated the net realizable value ($490/tonne at year end X 1,200 tonnes = $588,000) and concluded that the scrap inventory should be written down by $212,000 and not $800,000.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

You discussed IFRS accounting issues and identified some of the appropriate accounting treatments. However, your discussions either lacked direct links to Razor's specific situation or were technically incorrect. In order for your report to be useful to the client, it is important to use case facts to help explain why one particular treatment should be applied rather than another. Don't hesitate to use case facts to support your discussions and to apply your technical knowledge to the specific situation being presented to you. Also, In-depth technical knowledge was necessary in order to demonstrate competence on this indicator.

III-2 Primary #3 (AS)
The candidate identifies the impact of the accounting issues on the planning and performance of the audit and suggests additional procedures.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not identify a sufficient number of the risk areas presented in the simulation.

You did not focus your response on the most significant risk areas.
You did not properly explain why the procedure you suggested would be useful or what risk it would address.

You provided procedures that were either too generic, not practical, or that did not address the risks related to the current audit.

The simulation presented a number of specific risk areas that needed to be addressed in order to ensure that your audit considered all of the relevant risks. You did a good job suggesting some specific procedures to mitigate the risk in the areas of the preferred shares and the patent “We will need to hire an expert to review the value of the patent to determine the actual write down amount”. However, some of the other procedures you suggested were not appropriate. For example, you provided an audit procedure related to A/R: “we should verify the past 180 days invoice and compare them with the market rates of steel for the appropriate periods”. However, the procedure you proposed was not useful because it would not give you any confirmation on whether the amount would be paid or not. An appropriate procedure would have been to look at subsequent payments after year-end in order to validate if the amounts were ultimately collected or to see if there is a written agreement between Razor and Manley Mann that could clarify what the sale price should be (invoice or market rate). If you would have that agreement, then you could go back to the last 180 days invoice to ensure that they were in accordance with that agreement. Also, you identified the risk area related to inventory but concluded that it should be written down to 0$. The procedure you suggested “we should review the general ledger of how Razor entered these amounts and make sure that it is removed” did not address the risks related to the current audit because you did not think there was any value to audit. An appropriate procedure to gain assurance over the existence of the inventory would have been to do a count as soon as possible and reconcile back to the year end using roll-back procedures. An appropriate procedure to gain assurance over the valuation of the inventory would have been to look at subsequent sales of scrap metal from Razor or to validate the market rate with an outside source.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

The simulation requested that you suggest audit procedures to be performed for this year's engagement. You did a good job of recognizing some of the specific risks including A/R, inventory, the patent and the preferred shares. However, your response did not demonstrate that you clearly understood what audit procedures would have been effective in an audit engagement. Your discussion of the two major risk areas of A/R and inventory were incomplete, which made it more difficult for you demonstrate your competence on this indicator.
SECTION A - FINDINGS BY INDICATOR BY SIMULATION

Overall Comments

Communication

Was the response well organized with a logical flow?

Your response was well organized with a logical flow. You used headings to separate the various issues making your response easy to follow.

Did the candidate understand their role?

You partially understood your role as a CA working at an accounting firm. You addressed the engagement partner's requests as you discussed the IFRS accounting issues and the audit risk areas. You also recognized the fact that Razor is facing a potential going concern issue but your discussions were mostly oriented toward the financial sustainability of Razor. As an auditor, your response should have been oriented toward the impact of this potential issue on your audit work and on your audit report.

Was the response easy to read and understand?

Your response was written in an efficient way. It was easy to read and understand. You used point form but your thoughts were still complete and generally clear and understandable.

Prioritizing and Ranking

Did the response appear appropriately focused on the primaries? (vs. the secondaries)

There was no secondary indicator in this simulation.

Did the response appear balanced?

Your response was adequately balanced as it appears you spent an adequate amount of time on each of the three indicators. However, although you identified most of the major issues of this simulation, most of your discussions were either incomplete or technically incorrect. In the end, your memo was not as useful as it should have been for your partner.
III-3 Funky Town Tire Ltd.

Primary Indicators

III-3 Primary #1 (AS)

The candidate discusses engagement issues related to the work being requested, including potential conflicts of interest, and suggests ways to manage them, while considering useful additional services that could be provided to Ron and Paul.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not identify a sufficient number of valid engagement issues related to the work being requested by the client.

You did not correctly identify the potential conflict of interest that arises from advising parties on both sides of the transaction.

Your discussion of the potential conflicts of interest or other potential engagement issues lacked depth (i.e. use of case facts, impact, etc.).

You identified valid engagement issues arising from the work being requested but you did not provide appropriate suggestions to address the issues.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

Your response clearly described the potential conflict of interest and provided a valid suggestion to address the conflict. Additionally, you recommended "to have a due diligence done on FTT just to be safe that the purchase price is fair and that there are no undisclosed liabilities or anything that may impact the future profitability of FTT" which was valid and important to ensure Paul was receiving a fair price. Well done.

III-3 Primary #2 (FIN)

The candidate determines the amount of financing needed and discusses the potential sources of financing for the proposed transaction.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not attempt to calculate the amount of financing needed by Paul.

You calculated your own value for the shares of FTT despite the fact that Ron and Paul had already agreed on a value of $1 million. The valuation has already been done as per exhibit II and the clients did not ask you to calculate a value.

You did not discuss valid potential sources of financing for Paul to proceed with the purchase of Ron's shares or did not realize that the transaction could be funded with the business' future cash flows.

As you did not compare the available funds with the purchase price, you failed to recognize that there was a shortfall. The fact that Paul was asking about the vendor take-back option should have alerted you to take a second look at your analysis to ensure its' completeness.
SECTION A - FINDINGS BY INDICATOR BY SIMULATION

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

The client has asked for your advice on the amount of financing needed to complete the purchase and, if necessary, potential sources of financing for the proposed transaction. This was a direct request from Paul and you should have attempted to provide some advice. Providing an isolated discussion on funds available to Paul without comparing to the purchase price added no value and did not address his request.

III-3 Primary #3 (TAX)

The candidate discusses the significant taxation issues associated with the proposed transaction.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not address a sufficient number of valid tax issues associated with the proposed transaction.

You did not focus your response on the critical tax issues associated with the proposed transaction (deemed dividend or usefulness of a Holdco).

Paul mentioned in his notes about investing “in a holding company that pays the vendor”. Although you discussed other tax issues, you did not address the possibility of creating a Holdco. You should have explored the major tax benefits of using a Holdco. For example, a Holdco gives the possibility to receive tax-free dividends and tax-free intercorporate loans from FTT, allowing Paul to pay Ron with before tax money generated by FTT's business. Additionally, the simulation asked your "thoughts on selling or redeeming shares". You did not address the tax consequences of the share redemption. You could have mentioned the main tax impacts of the deemed dividend upon the redemption of shares. For example, if FTT redeems Ron's shares, this will create a deemed dividend and the tax impact will be significantly different than the sale of shares and use of the capital gains exemption.

Your response included technical errors or deficiencies when addressing the tax issues associated with the proposed transaction.

Your response addressed some of the tax issues facing Ron and Paul. You did a good job discussing some of these issues, for example, the acquisition of control and high level capital gains exemption. However, some of your other discussions were technically incorrect. For example, in your response, you wrote: "You can pay off your home mortgage of $250,000 with your personal RRSP as this can be done on a tax free basis". This is not technically correct as there is a maximum to this withdrawal ($20,000) and there are qualifications, for example, on the purchase of a home but you cannot have been the owner of a home in the previous 5 years.

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

Your discussion focused on mostly minor tax issues such as taxation of the RRSP, QSBC shares, and acquisition of control while the issues critical to the simulation (deemed dividends and use of a Holdco) were not addressed. For your report to be useful to your client, it had to address these critical areas. Additionally, your response contained technical deficiencies which limited the usefulness of the tax discussion.

III-3 Primary #4 (PMR)

The candidate discusses some of the accounting policies that would be required for the Funky Tire financial statements to be in accordance with ASPE.

YOU DID NOT ADDRESS THIS INDICATOR.

You did not identify a sufficient number of the accounting policies that would be required for the financial statements to be in accordance with ASPE.

Your response included technical errors or deficiencies when discussing the accounting policies under ASPE.

Your discussion of one or more of the ASPE accounting issues lacked depth (i.e. use of case facts, exploring alternatives, etc.).

You did not provide a valid and/or clear conclusion as to the appropriate accounting treatment for the relevant issues.
SECTION A - FINDINGS BY INDICATOR BY SIMULATION

Reviewer's additional comments on strengths/weaknesses and recommendations for improvement:

| You identified a sufficient number of the major accounting policy adjustments that would be required and discussed them in adequate depth. Your analysis was good and your conclusions were valid. Good job. |

**Overall Comments**

**Communication**

Was the response well organized with a logical flow?

*The response was very well organized. You separated issues using headings, your use of paragraphs was appropriate and your writing style was clear which made your response easy to follow.*

Did the candidate understand their role?

*You did not seem to understand that the valuation of FTT was done and accepted by both parties since you performed your own valuation of the company. Exhibit II of the simulation presented excerpts from the valuation report and showed that a value of FTT’s equity was $1 million. There was no need to perform the valuation again or suggest an alternative value. Additionally, you did not appear to understand that both parties had decided to sell the shares and not the assets. Paul made it clear by stating: “Ron and I each consulted our own legal advisors on the option of transferring assets, and we agreed not to pursue it. Our advisors confirmed that selling assets would result in a large tax liability for Funky Tire, so we are only interested in your thoughts on selling or redeeming shares”. Therefore, there was no point in discussing a potential sale of the assets.*

Was the response easy to read and understand?

*Your response was very clear and easy to read.*

**Prioritizing and Ranking**

Did the response appear appropriately focused on the primaries? (vs. the secondaries)

*Your response was appropriately focused on the primary indicators as you correctly devoted less time to addressing the secondary.*

Did the response appear balanced?

*Your response was well-balanced and it seems that appropriate time had been allocated to each indicator.*
Assurance (YELLOW)

Comp - Primary #2 (AS)
You did not provide a sufficient number of relevant procedures for substantiating HandySide's net income before tax.

You did not provide a sufficient number of relevant procedures for substantiating HandySide's net income before tax.

On page 2, Alex asks you to "suggest procedures the internal audit department could perform to substantiate the high-risk account balances in the financial statements". This indicated a requirement to isolate areas of risk and to suggest audit procedures to address the key accounts and assertions impacted. Your response could have benefited from identifying a greater number of procedures. You suggested only 2 procedures that were linked to areas of high risk identified in your accounting discussion and they were not tied specifically to the appropriate risk. For example, you identified in your accounting discussion that the drywall inventory rebates were a high risk area, and suggested that internal audit "review the general ledger of inventory accounts and make sure that no credits have been applied to the accounts." While this would show whether rebates had or had not been recorded in 2012, the real question that the auditors will have is whether or not there is going to be a rebate in 2012. A better procedure would have addressed this risk by confirming with the vendors that there would not be a 2012 rebate.

II-1 Primary #1 (AS)
You did not provide review procedures for a sufficient number of the relevant risk areas.

You did not provide review procedures for a sufficient number of the relevant risk areas.

While you provided a valid review procedure for inventory, you did not attempt to provide procedures in any other areas. In order for your memo to be useful to the partner, you were expected to provide procedures over more of the risk areas. For example, the partner would have wanted assurance over many other areas such as revenue from fireworks shows, revenue from holiday sales, revenue from regular retail sales, the HVAC system, and the equipment exchange.
II-2 Primary #1 (AS)

You did not identify a sufficient number of the required key controls.

You did not identify a sufficient number of the required key controls.

You identified the need to implement controls to address the risks relating to the donor health and the donor training issues. However, you did not identify the need to implement controls to address the risks relating to confidential information, donor bottle labeling, donor shipping frequency, donor shipping temperature, milk batching, batch identification, pasteurizer operation, bottle expiration, bottle tampering, storage temperature, distribution order, distribution shipping temperature. You were asked to help Louise develop the necessary controls for MMB and therefore needed to address a greater number of required controls in order for your response to be useful to Louise. Although you attempted to address some of the controls required to ensure the proper collection of breast milk, not all of the controls you suggested were addressing a key risk for MMB. For example, regarding the donor health issue, you indicated the following: “W: Currently the questionaires are done verbally: I: There is a risk that some questions are not asked therefore not covering all the risk factors and not following the guidelines. R: I recommend that all questionaires be done in writing to ensure completeness of responses so that the women are actually qualified to donate breast milk”. However, the weakness (“questionnaires done verbally”) you identified and the recommendation you provided (“questionnaires done in writing”) would not address the risk that MMB could be accepting milk donated by unhealthy mothers later on in the process. Although it is a risk for MMB to be accepting unhealthy mothers as donors, the greater risk in this situation was that MMB was at risk of accepting healthy donors that would become unhealthy later on in the process, and that this would never be detected. A stronger response would have recommended that MMB periodically re-screen their donors and that donors be asked to update their health questionnaire for any changes. This control would ensure that MMB did not accept milk from a donor who had successfully passed the current screening process but then contracted a virus or illness after the initial screening.

You did not provide a control for each operational risk you identified or you provided Louise with controls that were either too general, poorly explained or impractical.

You attempted to address the risk that MMB could be accepting contaminated milk when you discussed the fact that “women may not read the collection kit and therefore not washing hands or the breast pumps properly”. However, you recommended the following: “R: I recommend that we hire staff to assist with hand washing procedures and that our staff washes the breast pumps personally to ensure that it is cleaned properly for the next use”. This recommendation would be impractical because it would require MMB to hire staff, and also the mothers would need to send back the breast pumps to MBB or the mothers would need to go to the clinic to have the breast pumps washed. A stronger response would have recommended that MMB try to reduce the possible mistakes that a mother could make throughout the different steps of the donation process by providing training materials to the mothers and having support available through a helpline for example.
III-3 Primary #2 (AS)

You did not identify a sufficient number of the relevant procedures to be performed for the year-end audit.

You did not identify a sufficient number of the relevant procedures to be performed for the year-end audit.

You clearly recognized the need to provide audit procedures, but your response did not provide adequate breadth of coverage. You provided a valid procedure regarding the Zeus inventory. However, there were many other areas that needed to be addressed in relation to the accounting issues of significance. For example, your accounting discussion included discussions on the Indo-Tech sales and the government grant. This was a direct request, and the partner would have required a more thorough analysis in this area.

You provided procedures that were either too generic, not practical or that did not address the risks related to the current audit.

You provided several procedures that were quite generic and could have been applied to any audit. While some of these may have been useful, the partner directly asked for "the accounting issues of significance... and the procedures to be performed". For example, in the area of Indo-Tech sales, you suggested "We are concerned about the validity of whether DFT has met all its obligations to Indo. There is a risk that revenue is not recoded properly resulting in a material misstatement. We should review the agreement between DFT and Indo to see if DFT indeed has done all that is required inorder to recognize revenue". While the Indo-Tech issue was a significant area, your procedure was too general and did not specify what terms, etc. you would be looking for in your "review of the agreement". As the 60 day period was key, it was important to recognize it would need to be supported in your audit work. A better response would have outlined the need to ascertain the validity of the 60 days as part of the agreement with Indo-Tech, and then to perform procedures on goods shipped to Safe Storage and/or removed from the India warehouse to determine when the 60 day period began and would end (e.g. examine shipping documents for good to Safe Storage to determine date of shipment; look at receiving documents on their end to assess date of receipt (and when the 60 day period begins)).
III-2 Primary #1 (AS)

You did not provide valid and/or clear steps that could be taken to mitigate the indicators of a potential going concern issue.

You did not provide valid and/or clear steps that could be taken to mitigate the indicators of a potential going concern issue.

You discussed some of the indicators of a potential going concern issue for Razor. You did a good job explaining the potential impacts on Razor. However, you did not suggest any steps that could be taken to mitigate the going concern issue or given examples of evidence that you needed to obtain from the client to refute the going concern issue. For example, you identified that Razor no longer having the financial support of the parent company was an indicator of a potential going concern issue: "The parent company DE has indicated that it will not inject any more cash to Razor in the future which will limit their future financing options." However, you did not indicate what would be the impact on your audit work. A more complete response would have suggested that we look for evidence that Doyle has reconsidered the repayment terms of the last injection and is willing to invest more, or that other sources of financing have been looked into. Also, you identified that the covenant breach was an indicator of a potential going concern issue for Razor: "The bank covenant seems to be violated and if violated for more than 3 quarters then it can demand the entire loan to be paid on demand". However, you did not propose any action to be taken. A more complete response would have suggested that we contact the bank to find out about whether or not they intend to call the loan. Another way to mitigate the going concern issue would have been to ask Razor to provide a forecast which includes a plan for achieving the ratio going forward.

You did not properly explain the impact of the potential going concern issue on the audit report.

You did not recognize that the potential going concern issue could have an impact on our audit report. A more complete response would have explained that if the going concern assumption is appropriate but that there is material uncertainty, the financial statements should contain appropriate disclosure of the factors contributing to the uncertainty and an Emphasis of Matter paragraph needs to be added to the audit report in reference to that disclosure. You could also have explained that if the financial statements were to be prepared using an alternative basis, we might be able to express an unmodified opinion.
III-2 Primary #3 (AS)

You provided procedures that were either too generic, not practical, or that did not address the risks related to the current audit.

The simulation presented a number of specific risk areas that needed to be addressed in order to ensure that your audit considered all of the relevant risks. You did a good job suggesting some specific procedures to mitigate the risk in the areas of the preferred shares and the patent "We will need to hire an expert to review the value of the patent to determine the actual write down amount". However, some of the other procedures you suggested were not appropriate. For example, you provided an audit procedure related to A/R: "we should verify the past 180 days invoice and compare them with the market rates of steel for the appropriate periods". However, the procedure you proposed was not useful because it would not give you any confirmation on whether the amount would be paid or not. An appropriate procedure would have been to look at subsequent payments after year-end in order to validate if the amounts were ultimately collected or to see if there is a written agreement between Razor and Manley Mann that could clarify what the sale price should be (invoice or market rate). If you would have that agreement, then you could go back to the last 180 days invoice to ensure that they were in accordance with that agreement. Also, you identified the risk area related to inventory but concluded that it should be written down to 0$. The procedure you suggested "we should review the general ledger of how Razor entered these amounts and make sure that it is removed" did not address the risks related to the current audit because you did not think there was any value to audit. An appropriate procedure to gain assurance over the existence of the inventory would have been to do a count as soon as possible and reconcile back to the year end using roll-back procedures. An appropriate procedure to gain assurance over the valuation of the inventory would have been to look at subsequent sales of scrap metal from Razor or to validate the market rate with an outside source.
SECTION B - FINDINGS BY COMPETENCY AREA

Finance (YELLOW)

Comp - Primary #4 (FIN)

Your quantitative analysis of the three financing options contained significant errors and/or omissions.

While you attempted a quantitative analysis of the three financing options, it does not appear that you realized that in order to make a valid comparison between the three alternatives, you had to present them all on an equal footing. In order to do this, the missing element for each option needed to be determined: the interest rate for Option 1, the monthly payment amount for Option 2, and the term of the loan for Option 3. Then, the three alternatives could have been compared in a meaningful way. For Option 1, you assumed an interest rate of 8% and used this as the discount rate for calculating the net present value of the payments. For Option 2, you also calculated the present value of the payments, using 8% as the discount rate, but your calculation was flawed because you only considered the principal component of the payments, and not the interest. For Option 3, you attempted to calculate the term, but your calculation was flawed because you did not consider the interest component, only the principal. You calculated the present value of the payments; however, instead of using a consistent discount rate of 8%, you used 12%. Consequently, you were not able to compare the three options in a meaningful way, and your analysis provided little value to Alex.

You did not provide a qualitative analysis of the three financing options for the distribution centre.

You recognized the need to provide a quantitative analysis of the three financing options; however there were also qualitative factors that needed to be considered in the analysis of the financing alternatives in order to provide a complete and useful analysis to Alex. Qualitative elements that should have been discussed included the down payments, the payment flexibility, the monthly payments and the personal guarantees.

III-1 Primary #2 (FIN)

Your calculation of the purchase price contained a significant number of errors.

In your calculation of the purchase price, you failed to multiply the total value of the business by 49%. The simulation mentions that the price is determined based on five time normalized EBITDA and Super is only purchasing 49% of the outstanding common shares of Chinook. Hence, the total value of the business should be multiplied by the percentage of ownership at stake.

You did not address the gross margin adjustment or did not integrate any of the accounting adjustments into your calculation.

The simulation highlighted a number of adjustments of varying importance and complexity. It was particularly important to discuss the more significant and complex issues such as the accounting adjustments and the gross margin adjustment. While you were not expected to discuss all of them, it was important to address at least one of these adjustments in sufficient depth, which you did not do.
III-3 Primary #2 (FIN)

You did not attempt to calculate the amount of financing needed by Paul.

You did not attempt to calculate the amount of financing needed by Paul.  

The client has specifically asked you to assess “Paul’s ability to finance the buyout”. Both Paul and Ron need to know if Paul has sufficient financial resources to complete the acquisition. Your response only included an isolated analysis of the personal investments, RRSP’s, and mortgage on the personal residence. However, a more complete response would have compared the amount of financing available from the sources identified with the purchase price, to be able to calculate the amount of additional financing that Paul needed in order to proceed with the transaction.

Your calculation of the amount of financing needed by Paul contained errors and/or omissions.

You calculated your own value for the shares of FTT despite the fact that Ron and Paul had already agreed on a value of $1 million. The valuation has already been done as per exhibit II and the clients did not ask you to calculate a value.

You did not discuss valid potential sources of financing for Paul to proceed with the purchase of Ron's shares or did not realize that the transaction could be funded with the business' future cash flows.

As you did not compare the available funds with the purchase price, you failed to recognize that there was a shortfall. The fact that Paul was asking about the vendor take-back option should have alerted you to take a second look at your analysis to ensure its' completeness.
Governance, Strategy and Risk Management (GREEN)

Comp - Primary #7 (GOV)
You did not identify any issues with respect to the powers, duties and responsibilities of the new Finance & Audit Committee.

In your response, you stated that "the audit committee should not be touching these management functions to stay independent." While you recognized that there were problems with the current responsibilities identified in the draft terms of reference, you did not make specific recommendations about which duties listed should be completed by management, and which, if any, would be appropriate duties for the Audit Committee.

III-1 Primary #3 (GOV)
You did not identify a sufficient number of risks in your risk management plan.

Your analysis addressed only the need for a specialized workforce and the risk of not performing proper testing, but failed to discuss other relevant risks such as the risk of having design flaws, the risks associated with loading capacity issues, the breach of safety standards, the risk of paying out bonuses prematurely or the risk of not performing proper market research before launching the product. The simulation highlighted a number of potential risks of varying importance and complexity. While you were not expected to discuss all of them, it was important to address a reasonable number of the risks, which you did not do.

You did not provide a way for the risk to be managed or the solution you provided was too vague, not valid or impractical.

Your recommendation to address the risks associated with specialized workforce was: "We did not have the specialized work force to manufacture the product. This resulted in the poor manufacturing and lots of rework done which is very costly. I recommend that we have the technical expertise required to manufacture sophisticated products like the Yukon to prevent poor workmanship". However, this recommendation was too vague because it doesn't provide management with a plan on how to avoid this problem in the future. A better response would have suggested the need for proper training of the workforce or perhaps the hiring of the appropriate, specialized employees who would be able to manufacture according to the specifications outlined.

Your performance in this area was good and you clearly met the Board's standard.
Management Decision-Making (GREEN)

Comp - Primary #3 (MDM)

You recognized the need to compare the Ground-Up 2012 and Virtual Pre-Fab systems, however, your analysis lacked depth and/or did not always extend beyond a repetition of case facts.

In many cases your discussion of the issues was either very brief or did not extend beyond classifying the case facts as advantages and disadvantages to HandySide. In order to provide additional depth you needed to either explain why it was an advantage or disadvantage or explain what the implication was for HandySide. For example, when discussing the Virtual Pre-Fab system, you stated that the "annual cost will be 135,000 assuming monthly cost of 11,250 ((7500+1500)/2))." In order to add value to this statement, you needed to explain the implication. For example, you could have explained that having a monthly payment, rather than a large upfront payment (as is the case with Ground-Up) could be an advantage for HandySide given the current cash crunch. Integrating case facts into your analysis demonstrates depth.

You did not discuss a sufficient number of implementation issues associated with the two replacement systems.

Item D of the Agenda asked you to review and comment on the Ready-To-Move (RTM) software proposals and specifically asked you to "raise potential implementation issues." Your response did not address the implementation issues, such as the lack of an internal IT department, the production manager's workload during implementation, the lack of support from the manager and employees, or the need to involve the users in the implementation. The only suggestion you made with respect to implementation was to "recommend that we have the production supervisor be part of the new system implementation so that we have someone who understands the new system." It appears that you may need to spend more time reading the case, since the production supervisor is in fact the only HandySide employee who is involved.

II-1 Primary #4 (MDM)

You did not identify a sufficient number of other key decision factors that should be considered, or relevant additional information that should be obtained when assessing the two systems.

In addition to the stated ERD requirements, the simulation provided you with facts regarding the two systems that would have an impact on Kevin's choice. Kevin also specifically asked for "suggestions of anything else he or Ella should find out about the systems". As a result, you were expected to discuss some of these additional considerations in your analysis of the two options. In your response, you only considered the deadline imposed by the ERD and did not consider any of the other qualitative factors or other additional information such as the experience of each supplier, specific features available or the additional information required.
Your calculation of the total cost per 120 ml bottle of breast milk to be charged contained significant errors and/or omissions.

You attempted to calculate the total cost per 120 ml bottle, however, the nature of the errors in your calculation demonstrated your lack of understanding of the mechanics of the calculation. For example, in your calculation of the total fixed costs, you omitted the salaries of $275,000 which was a material amount. Salaries needed to be included as they are a recurrent expense and needed to be considered in the price to charge per bottle. You also omitted the office expenses, which needed to be considered as well in the price to charge per bottle. Then, in your calculation of variable costs, you miscalculated the shipping cost per bottle. You calculated "Per 25 Case Costs: Avg. Shipping: $25.00" for a total of shipping cost of $40,150 whereas the correct calculation was (39,600/25) bottles times 10,008 for a total shipping cost of $15,840. It appears that you misunderstood the case facts by taking a cost of $25,00 whereas the simulation facts were "$10 per 25 bottles of milk". You ended up with a cost per bottle of $4.45. A stronger response would have calculated the total fixed costs of $318,100 and total variable costs of $125,158 ($3.16 per bottle) for a total cost per bottle of $11.19 ($443,258 for 39,600 bottles).

Your analysis of the qualitative factors MMB should consider when setting a price was either weak or incomplete.

You did not address any of the qualitative factors MMB should consider when setting a price per 120 ml bottle, such as the possibility of selling to a combination of public hospitals at $8, private clinics at $20 and to women directly at $40, the impact of paying donors or the feasibility in meeting projected sales goals. Your response would have been stronger if you had discussed some of these issues. For example, as the total cost per bottle of $11.19 is above the public hospital price of $8 and below the private clinics price of $20, you could have suggested that Louise sell some bottles to private clinics in order to subsidize sales at only $8 to public hospitals.

Your performance in this area was good and you clearly met the Board's standard.
SECTION B - FINDINGS BY COMPETENCY AREA

Performance measurement and reporting (YELLOW)

Comp - Primary #1 (PMR)

Your discussion of one or more of the accounting issues for HandySide lacked depth (i.e. use of case facts, exploring alternatives, etc.).

In your discussion of the drywall inventory rebate, you correctly identified that "the 2.8M rebate received in February 2012 is actually related to the 2011 year end but is currently recorded in 2012 year end. This is an error and will have to be adjusted." However, you did not seem to understand the impact this would have on the financial statements since you concluded that "this will increase the bottom line for 2012." In fact, it would decrease net income if it were reversed out of 2012 cost of sales (increase in expenses). Also, you could have provided additional depth to your analysis by discussing the other significant issue related to the drywall inventory rebate, which was the impact not receiving a rebate in 2012 would have on the valuation. In your discussion of the intangibles, you provided some depth in your discussion by attempting to apply information from the case to the criteria for capitalization for both the logo and the e-commerce module. However, for the general website costs, you simply stated that "the general website costs does not meet ASPE criteria. Therefore, the 1,423,133 should be expensed and not capitalized." You did not provide any justification for this conclusion. A better response would have explained that the general website costs needed to be expensed because the general website cannot be separated from the company.

Your response included technical errors or deficiencies when discussing the accounting treatment under ASPE.

You concluded that the logo was properly capitalized as an intangible "as paid outside design firm and has future benefit as made to rebrand the company with new logo and slogan." This is incorrect as it is not reasonable that it could be separated from HandySide. There is also a specific requirement that states that internally generated brands, mastheads and items similar in substance shall not be recognized as intangible assets (HB 3064.47).

II-2 Primary #3 (PMR)

Your discussion of one or more of the accounting policies lacked depth (i.e. use of case facts, exploring alternatives, etc.).

You did a good job of discussing the $100,000 one-time federal government grant, as you recommended that under the deferral method, the $100,000 would need to be deferred and amortized over the life of the capital assets. However, in your discussion of the $75,000 donation from Dr. Oldmen, you stated that "Louise Donation: - We need to ask Louise whether her donation is restricted to any use so we know how to account for it. - Since MMB is using deferral method the revenue would be recognized once the fund is spent on its intended purpose. For the time being it should be recorded as deferred revenue." Although you were not wrong with your statement, you did not clearly realize that Louise made no indication that this donation had any external restriction placed upon it. Therefore, you did not recognize that it was an unrestricted contribution and that under the deferral method, it should be recorded immediately. Even without concluding that this was an unrestricted contribution, you could have explained to Louise how to account for the contribution in the event that there was no restrictions put on it. Because Louise mentioned that she had limited accounting knowledge, it was important for you to explain to her how this unrestricted contribution differed from the restricted contribution from the federal government.
II-3 Primary #1 (PMR)

Your discussion of one or more of the IFRS accounting issues lacked depth (i.e. use of case facts, exploring alternatives, etc.).

You addressed the government grant issue, however you did not discuss the criterion for recognition. You concluded that "Since only 25% of the project is complete then only this portion of the grant should be recorded as revenue which should be 200,000. Income has been overstated by 600000 as a result" however you did not provide appropriate analysis to show how you came to that conclusion. You addressed the GST reassessment when you included an adjustment in your exhibit, however you did not discuss this issue in your response. In your exhibit, you noted that "Recorded as prepaid expense when it should be expensed". However, you did not recognize that the reassessment has the characteristics of a contingent asset. A better response would have discussed this issue in your accounting section and considered the IFRS criteria related to contingent assets. The reassessment meets the definition of a contingent asset and contingent assets cannot be recognized unless their realization is virtually certain. In this case, DFT cannot be certain that the courts will allow the money to be returned, and as a result, virtual certainty does not exist and no asset should be recorded.

Your response included technical errors or deficiencies when discussing the accounting treatment under IFRS.

You addressed the issue of Indo-Tech sales and recognized the significance of the 60 day period, but your response contained technical errors as you wrote: "An argument that revenue can be recognized: - DFT is confident that Indo will take the inventory shortly. - Per the agreement any inventory not taken within 60 days of arrival is considered sold to Indo and shall be segregated for removal by Indo as soon as possible. - An argument that revenue cannot be recognized: - That ownership of the inventory transfers to Indo once it has taken place. Conclusion: Based on the contract it is more like a bill and hold sale. Since Indo has initiated the sale and the inventory is complete and segregated for Indo and DFT has complied with agreement revenue can be recognized. Therefore DFT is correct with recognition of revenue". As the 60 day period for the product shipped to the warehouse after August 2nd has not yet passed (nor will it pass by the year end date), it is incorrect to recognize this revenue. This transaction did not have the characteristics of a bill and hold arrangement.
III-1 Primary #1 (PMR)

Your calculation of the value of the WIP Inventory and/or the warranty provision contained significant errors and/or omissions.

In your calculation of the work-in-process, you failed to accumulate the costs incurred in previous stages for each of the trailers. For example, if a trailer was in stage 3 of production, you only included the costs associated with stage 3 and did not include the costs associated with stages 1 and 2. As a result, your calculation was incomplete. Your attempt to address the overhead in WIP was not logical. After accumulating the direct labour and materials cost, you attempted to remove the non-manufacturing portion of the overhead components, but there was no overhead in the direct materials and labour to begin with, so your adjustment did not make sense. Instead, you should have accumulated the direct materials and labour, calculated the total overhead related to production and then allocated to the production overheads between finished goods and work-in-process. Ideally, the allocation would have been based on the proportion of labour hours in inventory to the maximum capacity in labour hours. As a result of failing to accumulate the previous stages labour and materials and then removing amounts for overhead rather than adding them, you ended up with a value of $17,818, when a more reasonable value would have been approximately $256,000.

Your attempt to calculate the warranty provision was inconsistent in its approach and contained several errors. Although you used the correct repair estimates ($15,000 for Traditional and $30,000 for Yukon), as well as the estimated return percentages (10% and 5% for Traditional; 5% and 2% for Yukon), the number of trailers that you included for the two models did not make sense. For Traditional, your calculation was based on 130 trailers, which was the amount sold in 2010. However, the warranty expense for these sales should have been recorded in 2010 and you did not consider the 40 Traditional trailers that were sold in 2011. For the Yukon, your calculation was based on 30 trailers, which was not the number that were actually sold in 2011 (70), but rather the number that had been sold and recalled in the 1st quarter. Your calculation of the warranty provision (accrual) at the end of 2011 should have included just the 2nd year of the 2010 Traditional sales, plus the 1st and 2nd year of both the Traditional and Yukon 2011 sales (40 and 70 units respectively).
III-2 Primary #2 (PMR)

Your discussion of one or more of the IFRS accounting issues lacked depth (i.e. use of case facts, exploring alternatives, etc.).

You appropriately identified some of the IFRS accounting issues such as "If it is determined Razor has a going concern issue the financial statements would have to be stated a liquidation value." You also adequately discussed that particular issue. However, even though some of your other discussions came to the right conclusion, they were not always sufficiently supported with handbook guidance or were not always linked to specific case facts. For example, you recognized that the Manley Mann account receivable was probably overvalued: "To date there is discrepancy of 225,000 which may be potentially be written off if MM is unwilling to pay". You came to the right conclusion; however, you did not adequately support your conclusion. A more in depth response would have used case facts as evidence to support the impairment such as the fact that Manley Mann was paying according to the market price of steel instead of the amount of the invoice. You mentioned that there was a "dispute between Razor and MM" but did not explain what this dispute was about and how it could affect the valuation of A/R.

Your response included technical errors or deficiencies when discussing the accounting treatment under IFRS.

You appropriately identified the impact of the going concern issue on the financial statement. However, some of your other discussions were technically incorrect or incomplete. For example, you recognized that the injection from Doyle should be considered a liability: "Arguments for recording as long term debt: - DE has stated that it wants Razor to pay back the 2M in the next few years which is more than a year so long term." which was a good use of the case facts. You came to an appropriate conclusion, but your technical discussion was incomplete since you did not present the IFRS standard. A stronger discussion would have explained that under IFRS, to be presented as equity, the instrument must not include a contractual obligation to deliver cash or another financial asset to an entity and that the presentation should be based on the overall substance rather than the form of the transaction. In this particular case, the fact that the parent company wants to be repaid in the next few years was an indication that the transaction had the substance of a liability and not that of an equity transaction.

You did not provide a valid and/or clear conclusion as to the appropriate accounting treatment for the relevant IFRS issues.

You presented an adequate conclusion regarding the accounts receivable, the preferred shares, and the impact of the going concern issue on the financial statements. However, certain of your other conclusions were technically incorrect. For example, you discussed the value of the scrap inventory and concluded: "Therefore, the 800,000 should be expensed as part of COGS and inventory is lowered by this amount." This conclusion was not appropriate since even if part of the inventory came from off-cuts, those scrap pieces still had some value on the market. A stronger response would have calculated the net realizable value ($490/tonne at year end X 1,200 tonnes = $588,000) and concluded that the scrap inventory should be written down by $212,000 and not $800,000.
SECTION B - FINDINGS BY COMPETENCY AREA

Taxation (YELLOW)

Comp - Primary #6 (TAX)

You did not address a sufficient number of tax issues associated with the tax indemnity clause in the HandySide sale agreement.

The agreement with John for the purchase of HandySide included a tax adjustment clause. This clause required John to reimburse VHL for any additional tax assessed to HandySide for the period prior to January 1, 2012. Agenda item G presented several tax considerations and there were also tax implications related to other issues such as the rent free period, or the loan interest being paid by HandySide on VHL's behalf. Your response addressed only the potential tax liability relating to the charitable donations, the leased vehicle, and personal expenses, but omitted consideration of many other issues including the timing issues related to the clause, the investment losses, the plane, the life insurance, and the VHL interest. In order to fully demonstrate your competence it is necessary to cover the issues in sufficient breadth.

Your analysis of the tax issues associated with the tax indemnity clause lacked depth. (i.e. use of case facts, exploring alternatives, impact, technical knowledge, etc.)

In your discussion of the vehicle lease, you explained that "CRA limits lease cost for tax purposes to be under 800 per month," however, you did not consider that the lease would no longer be deductible after John retired (because there was no longer a business purpose to this expense). This would have added additional depth to your discussion.

III-3 Primary #3 (TAX)

You did not focus your response on the critical tax issues associated with the proposed transaction (deemed dividend or usefulness of a Holdco).

Paul mentioned in his notes about investing “in a holding company that pays the vendor”. Although you discussed other tax issues, you did not address the possibility of creating a Holdco. You should have explored the major tax benefits of using a Holdco. For example, a Holdco gives the possibility to receive tax-free dividends and tax-free intercorporate loans from FTT, allowing Paul to pay Ron with before tax money generated by FTT's business. Additionally, the simulation asked your "thoughts on selling or redeeming shares". You did not address the tax consequences of the share redemption. You could have mentioned the main tax impacts of the deemed dividend upon the redemption of shares. For example, if FTT redeems Ron's shares, this will create a deemed dividend and the tax impact will be significantly different than the sale of shares and use of the capital gains exemption.

Your response included technical errors or deficiencies when addressing the tax issues associated with the proposed transaction.

Your response addressed some of the tax issues facing Ron and Paul. You did a good job discussing some of these issues, for example, the acquisition of control and high level capital gains exemption. However, some of your other discussions were technically incorrect. For example, in your response, you wrote: "You can pay off your home mortgage of $250,000 with your personal RRSP as this can be done on a tax free basis". This is not technically correct as there is a maximum to this withdrawal ($20,000) and there are qualifications, for example, on the purchase of a home but you cannot have been the owner of a home in the previous 5 years.
Communication

Was the response well organized with a logical flow?

Comp - Your response was well organized and the use of headings made your response easy to follow. You made good use of exhibits by referencing adjustments in your exhibits to explanations. This was very helpful in understanding your calculations.

II-1 Your response was organized into sections based on the required areas of the simulation, making it easy to follow.

II-2 In general, your response was well organized with a logical flow.

II-3 You provided a good structure to your response, providing audit procedures at the end of your accounting analysis for each issue. Your response was organized into sections based on the required areas of the simulation. You used headings and sub-headings to clearly identify what area you were addressing. This made your response very clear and easy to follow.

III-1 The memo portion of your response was not well done. For example, your memo was only 1.5 pages, but within your text you had only two sections ("Potential loss of control and other issues" and "Overall conclusion"). You also had headings for "Calculation of purchase price" and "Audit issues", but did not discuss these items in your memo, just saying "see exhibit #" (your memo should incorporate the results of your exhibits and discuss any important qualitative considerations). The exhibits themselves were well organized and easy to follow.

III-2 Your response was well organized with a logical flow. You used headings to separate the various issues making your response easy to follow.

III-3 The response was very well organized. You separated issues using headings, your use of paragraphs was appropriate and your writing style was clear which made your response easy to follow.

Did the candidate understand their role?

Comp - It appears that you understood your role as you attempted to discuss all of the primary issues.

II-1 You did not always correctly identify your role. For example, although you addressed all of the "directed" requirements, you did not recognize that it was also your role to point out the pervasive issue that was having an impact on the operations of Fire in the Sky, namely Kevin’s absence while attending competitions. In addition, you did not always consider the information that the users would need. For example, Kevin would need to know not only how the two potential inventory tracking systems compared to the stated requirements, but also what additional qualitative factors should be considered in evaluating the options. You did not provide him with these considerations.

II-2 You did a good job of identifying each of the key areas required by the simulation, and attempted to address all of these areas.

II-3 Although you realized that management had a potential bias towards a higher EBITDA due to the new bonus program (when you said "Management has bias to increase revenues and decrease expenditures to take advantage of new bonus plan this year"), you did not conclude that they had acted on their bias. As an auditor, part of your role was to advise the partner of any evidence of potential intentional manipulation of the financial statements, as a result of accounting decisions made by management.

III-1 You appeared to understand your role and responded to the simulation appropriately.

III-2 You partially understood your role as a CA working at an accounting firm. You addressed the engagement partner’s requests as you discussed the IFRS accounting issues and the audit risk areas. You also recognized the fact that Razor is facing a potential going concern issue but your discussions were mostly oriented toward the financial sustainability of Razor. As an auditor, your response should have been oriented toward the impact of this potential issue on your audit work and on your audit report.

III-3 You did not seem to understand that the valuation of FTT was done and accepted by both parties since you performed your own valuation of the company. Exhibit II of the simulation presented excerpts from the valuation report and showed that a value of FTT’s equity was $1 million. There was no need to perform the valuation again or suggest an alternative value. Additionally, you did not appear to understand that both parties had decided to sell the shares and not the assets. Paul made it clear by stating: “Ron and I each consulted our own legal advisors on the option of transferring assets, and we agreed not to pursue it. Our advisors confirmed that selling assets would result in a large tax liability for Funky Tire, so we are only interested in your thoughts on selling or redeeming shares”. Therefore, there was no point in discussing a potential sale of the assets.
Was the response easy to read and understand?

Comp - You made good use of point form and of paragraphs to divide the issues in your response.

II-1 There were no difficulties encountered in reading or following your response. There were no difficulties encountered in reading or following your response.

II-2 Your response was generally easy to read and understand.

II-3 There were no difficulties encountered in reading or following your response. Your response was easy to understand. Your thoughts were complete even where point form was used. You made good use of exhibits by referencing adjustments in your exhibits to explanations. This was very helpful in understanding your calculations.

III-1 Your response was clearly written and easy to read and understand.

III-2 Your response was written in an efficient way. It was easy to read and understand. You used point form but your thoughts were still complete and generally clear and understandable.

III-3 Your response was very clear and easy to read.

Prioritizing and Ranking

Did the response appear appropriately focused on the primaries? (vs. the secondaries)

Comp - You did not address the secondary indicator. This was appropriate in the circumstances.

II-1 There were no secondary indicators for this simulation.

II-2 There were no secondaries in the simulation.

II-3 You did not address the secondary indicator (the structure of DFT’s new bonus plan). It is appropriate to focus on the primary indicators and only address the secondary if you have additional time.

III-1 This simulation did not include secondary indicators.

III-2 There was no secondary indicator in this simulation.

III-3 Your response was appropriately focused on the primary indicators as you correctly devoted less time to addressing the secondary.
Did the response appear balanced?

Comp - You had well balanced coverage of the major issues.

II-1 You did not address the pervasive issue in the simulation, but your response was well-balanced between the remaining issues and requests.

II-2 It appears that some of the time you spent discussing the management decision-making, performance measurement and reporting, and pervasive qualities and skills indicator may have been better spent addressing the assurance indicator of this simulation. This may have resulted in a more complete and balanced response. For example, regarding the assurance indicator, you did not provide much discussion as you typed a little more than half a page of discussion and provided only a few controls to be implemented by MMB.

II-3 You attempted to address all of the required areas, and your response appeared to be reasonably balanced between these issues.

III-1 You appear to have spent more of your time on the quantitative analysis (Indicators 1 and 2) than you did on your memo, with 3 full pages of exhibits but only 1.5 pages of text (indicators 3 and 4). Given that the shortcomings in indicators 1 and 2 were primarily technical, spending more time on these did not benefit you. However, on indicators 3 and 4, you were showing a good understanding of the issues and were on the right track, but just needed to discuss more issues and offer more support from the case facts.

III-2 Your response was adequately balanced as it appears you spent an adequate amount of time on each of the three indicators. However, although you identified most of the major issues of this simulation, most of your discussions were either incomplete or technically incorrect. In the end, your memo was not as useful as it should have been for your partner.

III-3 Your response was well-balanced and it seems that appropriate time had been allocated to each indicator.
Summary of "Analysis - calculate":

Your quantitative analysis of the three financing options contained significant errors and/or omissions.

While you attempted a quantitative analysis of the three financing options, it does not appear that you realized that in order to make a valid comparison between the three alternatives, you had to present them all on an equal footing. In order to do this, the missing element for each option needed to be determined: the interest rate for Option 1, the monthly payment amount for Option 2, and the term of the loan for Option 3. Then, the three alternatives could have been compared in a meaningful way. For Option 1, you assumed an interest rate of 8% and used this as the discount rate for calculating the net present value of the payments. For Option 2, you also calculated the present value of the payments, using 8% as the discount rate, but your calculation was flawed because you only considered the principal component of the payments, and not the interest. For Option 3, you attempted to calculate the term, but your calculation was flawed because you did not consider the interest component, only the principal. You calculated the present value of the payments; however, instead of using a consistent discount rate of 8%, you used 12%. Consequently, you were not able to compare the three options in a meaningful way, and your analysis provided little value to Alex.

Your calculation of the total cost per 120 ml bottle of breast milk to be charged contained significant errors and/or omissions.

You attempted to calculate the total cost per 120 ml bottle, however, the nature of the errors in your calculation demonstrated your lack of understanding of the mechanics of the calculation. For example, in your calculation of the total fixed costs, you omitted the salaries of $275,000 which was a material amount. Salaries needed to be included as they are a recurrent expense and needed to be considered in the price to charge per bottle. You also omitted the office expenses, which needed to be considered as well in the price to charge per bottle. Then, in your calculation of variable costs, you miscalculated the shipping cost per bottle. You calculated "Per 25 Case Costs: Avg. Shipping: $25,00" for a total of shipping cost of $40,150 whereas the correct calculation was (39,600/25) bottles times $10 per 25 bottles of milk for a total shipping cost of $396,000. It appears that you misunderstood the case facts by taking a cost of $25,00 whereas the simulation facts were $10 per 25 bottles of milk. You ended up with a cost per bottle of $4.45. A stronger response would have calculated the total fixed costs of $318,100 and total variable costs of $125,158 ($3.16 per bottle) for a total cost per bottle of $11.19 ($443,258 for 39,600 bottles).
SUMMARY OF PROFESSIONAL SKILLS FINDINGS

Your calculation of the value of the WIP Inventory and/or the warranty provision contained significant errors and/or omissions.

In your calculation of the work-in-process, you failed to accumulate the costs incurred in previous stages for each of the trailers. For example, if a trailer was in stage 3 of production, you only included the costs associated with stage 3 and did not include the costs associated with stages 1 and 2. As a result, your calculation was incomplete. Your attempt to address the overhead in WIP was not logical. After accumulating the direct labour and materials cost, you attempted to remove the non-manufacturing portion of the overhead components, but there was no overhead in the direct materials and labour to begin with, so your adjustment did not make sense. Instead, you should have accumulated the direct materials and labour, calculated the total overhead related to production and then allocated to the production overheads between finished goods and work-in-process. Ideally, the allocation would have been based on the proportion of labour hours in inventory to the maximum capacity in labour hours. As a result of failing to accumulate the previous stages labour and materials and then removing amounts for overhead rather than adding them, you ended up with a value of $17,818, when a more reasonable value would have been approximately $256,000.

Your attempt to calculate the warranty provision was inconsistent in its approach and contained several errors. Although you used the correct repair estimates ($15,000 for Traditional and $30,000 for Yukon), as well as the estimated return percentages (10% and 5% for Traditional; 5% and 2% for Yukon), the number of trailers that you included for the two models did not make sense. For Traditional, your calculation was based on 130 trailers, which was the amount sold in 2010. However, the warranty expense for these sales should have been recorded in 2010 and you did not consider the 40 Traditional trailers that were sold in 2011. For the Yukon, your calculation was based on 30 trailers, which was not the number that were actually sold in 2011 (70), but rather the number that had been sold and recalled in the 1st quarter. Your calculation of the warranty provision (accrual) at the end of 2011 should have included just the 2nd year of the 2010 Traditional sales, plus the 1st and 2nd year of both the Traditional and Yukon 2011 sales (40 and 70 units respectively).

Your calculation of the purchase price contained a significant number of errors.

In your calculation of the purchase price, you failed to multiply the total value of the business by 49%. The simulation mentions that the price is determined based on five time normalized EBITDA and Super is only purchasing 49% of the outstanding common shares of Chinook. Hence, the total value of the business should be multiplied by the percentage of ownership at stake.

You did not attempt to calculate the amount of financing needed by Paul.

The client has specifically asked you to assess “Paul’s ability to finance the buyout”. Both Paul and Ron need to know if Paul has sufficient financial resources to complete the acquisition. Your response only included an isolated analysis of the personal investments, RRSP’s, and mortgage on the personal residence. However, a more complete response would have compared the amount of financing available from the sources identified with the purchase price, to be able to calculate the amount of additional financing that Paul needed in order to proceed with the transaction.

Your calculation of the amount of financing needed by Paul contained errors and/or omissions.

You calculated your own value for the shares of FTT despite the fact that Ron and Paul had already agreed on a value of $1 million. The valuation has already been done as per exhibit II and the clients did not ask you to calculate a value.
SUMMARY OF PROFESSIONAL SKILLS FINDINGS

Summary of "Analysis - evaluate alternatives":

Your analysis of the qualitative factors MMB should consider when setting a price was either weak or incomplete.

*You did not address any of the qualitative factors MMB should consider when setting a price per 120 ml bottle, such as the possibility of selling to a combination of public hospitals at $8, private clinics at $20 and to women directly at $40, the impact of paying donors or the feasibility in meeting projected sales goals. Your response would have been stronger if you had discussed some of these issues. For example, as the total cost per bottle of $11.19 is above the public hospital price of $8 and below the private clinics price of $20, you could have suggested that Louise sell some bottles to private clinics in order to subsidize sales at only $8 to public hospitals.*

You did not discuss valid potential sources of financing for Paul to proceed with the purchase of Ron's shares or did not realize that the transaction could be funded with the business' future cash flows.

*As you did not compare the available funds with the purchase price, you failed to recognize that there was a shortfall. The fact that Paul was asking about the vendor take-back option should have alerted you to take a second look at your analysis to ensure its' completeness.*
Summary of "Analysis - knowledge":

Your discussion of one or more of the accounting issues for HandySide lacked depth (i.e. use of case facts, exploring alternatives, etc.).

In your discussion of the drywall inventory rebate, you correctly identified that "the 2.8M rebate received in February 2012 is actually related to the 2011 year end but is currently recorded in 2012 year end. This is an error and will have to be adjusted." However, you did not seem to understand the impact this would have on the financial statements since you concluded that "this will increase the bottom line for 2012." In fact, it would decrease net income if it were reversed out of 2012 cost of sales (increase in expenses). Also, you could have provided additional depth to your analysis by discussing the other significant issue related to the drywall inventory rebate, which was the impact not receiving a rebate in 2012 would have on the valuation. In your discussion of the intangibles, you provided some depth in your discussion by attempting to apply information from the case to the criteria for capitalization for both the logo and the e-commerce module. However, for the general website costs, you simply stated that "the general website costs does not meet ASPE criteria. Therefore, the 1,423,133 should be expensed and not capitalized." You did not provide any justification for this conclusion. A better response would have explained that the general website costs needed to be expensed because the general website cannot be separated from the company.

Your response included technical errors or deficiencies when discussing the accounting treatment under ASPE.

You concluded that the logo was properly capitalized as an intangible "as paid outside design firm and has future benefit as made to rebrand the company with new logo and slogan." This is incorrect as it is not reasonable that it could be separated from HandySide. There is also a specific requirement that states that internally generated brands, mastheads and items similar in substance shall not be recognized as intangible assets (HB 3064.47).

You recognized the need to compare the Ground-Up 2012 and Virtual Pre-Fab systems, however, your analysis lacked depth and/or did not always extend beyond a repetition of case facts.

In many cases your discussion of the issues was either very brief or did not extend beyond classifying the case facts as advantages and disadvantages to HandySide. In order to provide additional depth you needed to either explain why it was an advantage or disadvantage or explain what the implication was for HandySide. For example, when discussing the Virtual Pre-Fab system, you stated that the "annual cost will be 135,000 assuming montly cost of 11,250 ((7500+1500)/2))." In order to add value to this statement, you needed to explain the implication. For example, you could have explained that having a monthly payment, rather than a large upfront payment (as is the case with Ground-Up) could be an advantage for HandySide given the current cash crunch. Integrating case facts into your analysis demonstrates depth.

You did not discuss a sufficient number of implementation issues associated with the two replacement systems.

Item D of the Agenda asked you to review and comment on the Ready-To-Move (RTM) software proposals and specifically asked you to "raise potential implementation issues." Your response did not address the implementation issues, such as the lack of an internal IT department, the production manager's workload during implementation, the lack of support from the manager and employees, or the need to involve the users in the implementation. The only suggestion you made with respect to implementation was to "recommend that we have the production supervisor be part of the new system implementation so that we have someone who understands the new system." It appears that you may need to spend more time reading the case, since the production supervisor is in fact the only HandySide employee who is involved.

Your analysis of the tax issues associated with the tax indemnity clause lacked depth (i.e. use of case facts, exploring alternatives, impact, technical knowledge, etc.).

In your discussion of the vehicle lease, you explained that "CRA limits lease cost for tax purposes to be under 800 per month;" however, you did not consider that the lease would no longer be deductible after John retired (because there was no longer a business purpose to this expense). This would have added additional depth to your discussion.
Your discussion of one or more of the accounting policies lacked depth (i.e. use of case facts, exploring alternatives, etc.).

You did a good job of discussing the $100,000 one-time federal government grant, as you recommended that under the deferral method, the $100,000 would need to be deferred and amortized over the life of the capital assets. However, in your discussion of the $75,000 donation from Dr. Oldmen, you stated that "Louise Donation: - We need to ask Louise whether her donation is restricted to any use so we know how to account for it. - Since MMB is using deferral method the revenue would be recognized once the fund is spent on its intended purpose. For the time being it should be recorded as deferred revenue." Although you were not wrong with your statement, you did not clearly realize that Louise made no indication that this donation had any external restriction placed upon it. Therefore, you did not recognize that it was an unrestricted contribution and that under the deferral method, it should be recorded immediately. Even without concluding that this was an unrestricted contribution, you could have explained to Louise how to account for the contribution in the event that there was no restrictions put on it. Because Louise mentioned that she had limited accounting knowledge, it was important for you to explain to her how this unrestricted contribution differed from the restricted contribution from the federal government.

You addressed the government grant issue, however you did not discuss the criterion for recognition. You concluded that "Since only 25% of the project is complete then only this portion of the grant should be recorded as revenue which should be 200,000. Income has been overstated by 600000 as a result" however you did not provide appropriate analysis to show how you came to that conclusion. You addressed the GST reassessment when you included an adjustment in your exhibit, however you did not discuss this issue in your response. In you exhibit, you noted that "Recorded as prepaid expense when it should be expensed". However, you did not recognize that the reassessment has the characteristics of a contingent asset. A better response would have discussed this issue in your accounting section and considered the IFRS criteria related to contingent assets. The reassessment meets the definition of a contingent asset and contingent assets cannot be recognized unless their realization is virtually certain. In this case, DFT cannot be certain that the courts will allow the money to be returned, and as a result, virtual certainty does not exist and no asset should be recorded.

Your response included technical errors or deficiencies when discussing the accounting treatment under IFRS.

You addressed the issue of Indo-Tech sales and recognized the significance of the 60 day period, but your response contained technical errors as you wrote: "An argument that revenue can be recognized: - DFT is confident that Indo will take the inventory shortly. - Per the agreement any inventory not taken within 60 days of arrival is considered sold to Indo and shall be segregated for removal by Indo as soon as possible. - An agreement that revenue cannot be recognized:- That ownership of the inventory transfers to Indo once it has taken place. Conclusion: Based on the contract it is more like a bill and hold sale. Since Indo has initiated the sale and the inventory is complete and segregated for Indo and DFT has complied with agreement revenue can be recognized. Therefore DFT is correct with recognition of revenue". As the 60 day period for the product shipped to the warehouse after August 2nd has not yet passed (nor will it pass by the year end date), it is incorrect to recognize this revenue. This transaction did not have the characteristics of a bill and hold arrangement.
SUMMARY OF PROFESSIONAL SKILLS FINDINGS

Your discussion of one or more of the IFRS accounting issues lacked depth (i.e. use of case facts, exploring alternatives, etc.).

You appropriately identified some of the IFRS accounting issues such as "If it is determined Razor has a going concern issue the financial statements would have to be stated at a liquidation value." You also adequately discussed that particular issue. However, even though some of your other discussions came to the right conclusion, they were not always sufficiently supported with handbook guidance or were not always linked to specific case facts. For example, you recognized that the Manley Mann account receivable was probably overvalued: "To date there is discrepancy of 225,000 which may be potentially be written off if MM is unwilling to pay". You came to the right conclusion; however, you did not adequately support your conclusion. A more in depth response would have used case facts as evidence to support the impairment such as the fact that Manley Mann was paying according to the market price of steel instead of the amount of the invoice. You mentioned that there was a "dispute between Razor and MM" but did not explain what this dispute was about and how it could affect the valuation of A/R.

Your response included technical errors or deficiencies when discussing the accounting treatment under IFRS.

You appropriately identified the impact of the going concern issue on the financial statement. However, some of your other discussions were technically incorrect or incomplete. For example, you recognized that the injection from Doyle should be considered a liability: "Arguments for recording as long term debt: - DE has stated that it wants Razor to pay back the 2M in the next few years which is more than a year so long term." which was a good use of the case facts. You came to an appropriate conclusion, but your technical discussion was incomplete since you did not present the IFRS standard. A stronger discussion would have explained that under IFRS, to be presented as equity, the instrument must not include a contractual obligation to deliver cash or another financial asset to an entity and that the presentation should be based on the overall substance rather than the form of the transaction. In this particular case, the fact that the parent company wants to be repaid in the next few year was an indication that the transaction had the substance of a liability and not that of an equity transaction.

Your response included technical errors or deficiencies when addressing the tax issues associated with the proposed transaction.

Your response addressed some of the tax issues facing Ron and Paul. You did a good job discussing some of these issues, for example, the acquisition of control and high level capital gains exemption. However, some of your other discussions were technically incorrect. For example, in your response, you wrote: "You can pay off your home mortgage of $250,000 with your personal RRSP as this can be done on a tax free basis". This is not technically correct as there is a maximum to this withdrawal ($20,000) and there are qualifications, for example, on the purchase of a home but you cannot have been the owner of a home in the previous 5 years.
### SUMMARY OF PROFESSIONAL SKILLS FINDINGS

**Summary of "Identification":**

Where "YOU DID NOT ADDRESS THIS INDICATOR" is listed, it means that you missed addressing a primary indicator completely. This is considered a significant weakness.

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You did not provide a sufficient number of relevant procedures for substantiating HandySide's net income before tax.

On page 2, Alex asks you to "suggest procedures the internal audit department could perform to substantiate the high-risk account balances in the financial statements". This indicated a requirement to isolate areas of risk and to suggest audit procedures to address the key accounts and assertions impacted. Your response could have benefited from identifying a greater number of procedures. You suggested only 2 procedures that were linked to areas of high risk identified in your accounting discussion and they were not tied specifically to the appropriate risk. For example, you identified in your accounting discussion that the drywall inventory rebates were a high risk area, and suggested that internal audit "review the general ledger of inventory accounts and make sure that no credits have been applied to the accounts." While this would show whether rebates had or had not been recorded in 2012, the real question that the auditors will have is whether or not there is going to be a rebate in 2012. A better procedure would have addressed this risk by confirming with the vendors that there would not be a 2012 rebate.

You did not provide a qualitative analysis of the three financing options for the distribution centre.

You recognized the need to provide a quantitative analysis of the three financing options; however there were also qualitative factors that needed to be considered in the analysis of the financing alternatives in order to provide a complete and useful analysis to Alex. Qualitative elements that should have been discussed included the down payments, the payment flexibility, the monthly payments and the personal guarantees.

You did not address a sufficient number of tax issues associated with the tax indemnity clause in the HandySide sale agreement.

The agreement with John for the purchase of HandySide included a tax adjustment clause. This clause required John to reimburse VHL for any additional tax assessed to HandySide for the period prior to January 1, 2012. Agenda item G presented several tax considerations and there were also tax implications related to other issues such as the rent free period, or the loan interest being paid by HandySide on VHL's behalf. Your response addressed only the potential tax liability relating to the charitable donations, the leased vehicle, and personal expenses, but omitted consideration of many other issues including the timing issues related to the clause, the investment losses, the plane, the life insurance, and the VHL interest. In order to fully demonstrate your competence it is necessary to cover the issues in sufficient breadth.

You did not identify any issues with respect to the powers, duties and responsibilities of the new Finance & Audit Committee.

In your response, you stated that "the audit committee should not be touching these management functions to stay independent." While you recognized that there were problems with the current responsibilities identified in the draft terms of reference, you did not make specific recommendations about which duties listed should be completed by management, and which, if any, would be appropriate duties for the Audit Committee.

You did not identify the significant financial constraints faced by HandySide.

Although you were not specifically directed to discuss this issue, recognizing it and bringing it to the client's attention would have been extremely useful. The acquisition of HandySide by Alex has put the company in a much weaker financial position than it was prior to the purchase. Factors that should have led you to address this issue were: the repayment of John's shareholder loan, borrowing $75 million from CNVF to purchase the shares of HandySide, $14 million in bank indebtedness on HandySide's balance sheet, the demand loan from John for $10 million, the potential purchase of the distribution centre, as well as the replacement of the RTM manufacturing software. All of these factors should have led you to recognize that HandySide's financial position was very weak and needed to be addressed.
You did not identify the flaws in the strategic direction being contemplated by Alex Victor.

As part of Agenda Item B-1 on page 6 of the simulation, it also stated that "HandySide has entered into preliminary discussions with a home improvement retail chain in Atlantic Canada that would see HandySide acquire 65 retail stores with revenues totaling over $225 million. The current owner of the chain will retire in approximately five years and has approached Alex about a potential acquisition in 2017." HandySide's operating performance and its profitability have deteriorated significantly, it has incurred a significant amount of debt over the past year and there are significant debt repayments that need to be made to CNVF over the next 10 years. All of these factors would suggest that a significant expansion into Atlantic Canada should not be a priority at this time. Recognizing this issue and supporting it with case facts would have been appropriate.

You did not provide review procedures for a sufficient number of the relevant risk areas.

While you provided a valid review procedure for inventory, you did not attempt to provide procedures in any other areas. In order for your memo to be useful to the partner, you were expected to provide procedures over more of the risk areas. For example, the partner would have wanted assurance over many other areas such as revenue from fireworks shows, revenue from holiday sales, revenue from regular retail sales, the HVAC system, and the equipment exchange.

You did not identify a sufficient number of other key decision factors that should be considered, or relevant additional information that should be obtained when assessing the two systems.

In addition to the stated ERD requirements, the simulation provided you with facts regarding the two systems that would have an impact on Kevin's choice. Kevin also specifically asked for “suggestions of anything else he or Ella should find out about the systems”. As a result, you were expected to discuss some of these additional considerations in your analysis of the two options. In your response, you only considered the deadline imposed by the ERD and did not consider any of the other qualitative factors or other additional information such as the experience of each supplier, specific features available or the additional information required.

You did not address this indicator.

You did not identify a sufficient number of the required key controls.

You identified the need to implement controls to address the risks relating to the donor health and the donor training issues. However, you did not identify the need to implement controls to address the risks relating to confidential information, donor bottle labeling, donor shipping frequency, donor shipping temperature, milk batching, batch identification, pasteurizer operation, bottle expiration, bottle tampering, storage temperature, distribution order, distribution shipping temperature. You were asked to help Louise develop the necessary controls for MMB and therefore needed to address a greater number of required controls in order for your response to be useful to Louise. Although you attempted to address some of the controls required to ensure the proper collection of breast milk, not all of the controls you suggested were addressing a key risk for MMB. For example, regarding the donor health issue, you indicated the following: “W: Currently the questionnaires are done verbally: I: There is a risk that some questions are not asked therefore not covering all the risk factors and not following the guidelines. R: I recommend that all questionnaires be done in writing to ensure completeness of responses so that the women are actually qualified to donate breast milk”. However, the weakness ("questionnaires done verbally") you identified and the recommendation you provided ("questionnaires done in writing") would not address the risk that MMB could be accepting milk donated by unhealthy mothers later on in the process. Although it is a risk for MMB to be accepting unhealthy mothers as donors, the greater risk in this situation was that MMB was at risk of accepting healthy donors that would become unhealthy later on in the process, and that this would never be detected. A stronger response would have recommended that MMB periodically re-screen their donors and that donors be asked to update their health questionnaire for any changes. This control would ensure that MMB did not accept milk from a donor who had successfully passed the current screening process but then contracted a virus or illness after the initial screening.
SUMMARY OF PROFESSIONAL SKILLS FINDINGS

You did not identify a sufficient number of the relevant decisions Louise needs to make about MMB.

You only addressed how Louise should determine which babies are most deserving of the milk donations. You did a decent job of discussing this issue. However, you did not address the other issue she specifically asked about regarding whether she should compensate donor mothers for their donations of milk. A stronger response would have identified the possible impact of paying donor mothers. For example, paying donor mothers might increase the number of donors but at the same time, might encourage mothers in financial difficulty to withhold breast milk from their baby in order to have more breast milk to sell.

You did not identify a sufficient number of the relevant procedures to be performed for the year-end audit.

You clearly recognized the need to provide audit procedures, but your response did not provide adequate breadth of coverage. You provided a valid procedure regarding the Zeus inventory. However, there were many other areas that needed to be addressed in relation to the accounting issues of significance. For example, your accounting discussion included discussions on the Indo-Tech sales and the government grant. This was a direct request, and the partner would have required a more thorough analysis in this area.

You did not identify a sufficient number of risks in your risk management plan.

Your analysis addressed only the need for a specialized workforce and the risk of not performing proper testing, but failed to discuss other relevant risks such as the risk of having design flaws, the risks associated with loading capacity issues, the breach of safety standards, the risk of paying out bonuses prematurely or the risk of not performing proper market research before launching the product. The simulation highlighted a number of potential risks of varying importance and complexity. While you were not expected to discuss all of them, it was important to address a reasonable number of the risks, which you did not do.

You did not focus your response on the critical tax issues associated with the proposed transaction (deemed dividend or usefulness of a Holdco).

Paul mentioned in his notes about investing “in a holding company that pays the vendor”. Although you discussed other tax issues, you did not address the possibility of creating a Holdco. You should have explored the major tax benefits of using a Holdco. For example, a Holdco gives the possibility to receive tax-free dividends and tax-free intercorporate loans from FTT, allowing Paul to pay Ron with before tax money generated by FTT's business. Additionally, the simulation asked your "thoughts on selling or redeeming shares". You did not address the tax consequences of the share redemption. You could have mentioned the main tax impacts of the deemed dividend upon the redemption of shares. For example, if FTT redeems Ron's shares, this will create a deemed dividend and the tax impact will be significantly different than the sale of shares and use of the capital gains exemption.
SUMMARY OF PROFESSIONAL SKILLS FINDINGS

Summary of "Integration":

While you recognized the importance of the price adjustment clause, your analysis lacked depth. (i.e. use of case facts, exploring alternatives, impact, etc.)

While you understood the importance of determining if HandySide's Net Income would fall below the $5-million threshold and if HandySide would be able to invoke the price adjustment clause, your analysis did not go beyond calculating a revised net income and concluding that it would fall below $5M. However, recognizing and informing the client that this one-time cash injection would not solve all of HandySide's current operational issues nor would it fix its current financial situation and supporting this with case facts would have been appropriate.

You did not identify the fact that management may have acted on their bias to increase EBITDA.

You have noted the potential for management to manipulate the numbers or the accounting treatment of some transactions when you wrote "Management has bias to increase revenues and decrease expenditures to take advantage of new bonus plan this year". However, you did not conclude or say that they have demonstrated a bias in the choice of the accounting treatment to help them to get their bonus. A more complete response would have concluded that it was clear that many of the accounting decisions were made to inflate the net income and therefore inflate EBITDA to exceed the $14 million threshold in order for management to achieve the bonus threshold. You commented (when discussing the Zeus inventory) that "This may show a bias of management to understate expenses to take advantage of the bonus" which does not convey that management had acted on their bias.

You did not address the gross margin adjustment or did not integrate any of the accounting adjustments into your calculation.

The simulation highlighted a number of adjustments of varying importance and complexity. It was particularly important to discuss the more significant and complex issues such as the accounting adjustments and the gross margin adjustment. While you were not expected to discuss all of them, it was important to address at least one of these adjustments in sufficient depth, which you did not do.

Your discussion of one or more of the issues lacked depth (i.e. use of case facts, impact, etc.).

Your discussion of the fit between Chinook and Super did not draw sufficiently on case facts. You identified that there was a difference between the two companies when you said "The newspaper stated that Super's CEO is known for making bold moves and acquiring other innovative companies. Since Chinook is an innovative company Super's intention may be to acquire Control as the article mentioned they are looking for the latest innovative product which may be targeting the Yukon. That was their main intent in early negotiations", but did not use case facts to illustrate what the difference was and how it might affect future operations. For example, you could have contrasted elements of the two cultures: Chinook focuses on product development while Super focuses on acquiring products that are ready for the market; Chinook likes to make careful and deliberate decisions while Super makes "fast and tough" decisions; Chinook focuses on high quality, while Super focuses on high growth. Alternatively, you could have discussed how the situation where Super shut down a product line at a recently acquired manufacturer paralleled the recent problems with Yukon but how the difference in management style resulted in a different outcome (Chinook overcame their initial problems and improved the Yukon while Super discontinued the new brake product in order to reduce potential future losses).
Summary of "Recommendation":

You did not provide a control for each operational risk you identified or you provided Louise with controls that were either too general, poorly explained or impractical.

_You attempted to address the risk that MMB could be accepting contaminated milk when you discussed the fact that "women may not read the collection kit and therefore not washing hands or the breast pumps properly"_. However, you recommended the following: "R: I recommend that we hire staff to assist with hand washing procedures and that our staff washes the breast pumps personally to ensure that it is cleaned properly for the next use". This recommendation would be impractical because it would require MMB to hire staff, and also the mothers would need to send back the breast pumps to MMB or the mothers would need to go to the clinic to have the breast pumps washed. A stronger response would have recommended that MMB try to reduce the possible mistakes that a mother could make throughout the different steps of the donation process by providing training materials to the mothers and having support available through a helpline for example.

You provided procedures that were either too generic, not practical or that did not address the risks related to the current audit.

_You provided several procedures that were quite generic and could have been applied to any audit. While some of these may have been useful, the partner directly asked for "the accounting issues of significance... and the procedures to be performed"_. For example, in the area of Indo-Tech sales, you suggested "We are concerned about the validity of whether DFT has met all its obligations to Indo. There is a risk that revenue is not recoded properly resulting in a material misstatement. We should review the agreement between DFT and Indo to see if DFT indeed has done all that is required inorder to recognize revenue". While the Indo-Tech issue was a significant area, your procedure was too general and did not specify what terms, etc. you would be looking for in your "review of the agreement". As the 60 day period was key, it was important to recognize it would need to be supported in your audit work. A better response would have outlined the need to ascertain the validity of the 60 days as part of the agreement with Indo-Tech, and then to perform procedures on goods shipped to Safe Storage and/or removed from the India warehouse to determine when the 60 day period began and would end (e.g. examine shipping documents for good to Safe Storage to determine date of shipment; look at receiving documents on their end to assess date of receipt (and when the 60 day period begins)).

You did not provide a way for the risk to be managed or the solution you provided was too vague, not valid or impractical.

_Your recommendation to address the risks associated with specialized workforce was: "We did not have the specialized work force to manufacture the product. This resulted in the poor manufacturing and lots of rework done which is very costly. I recommend that we have the technical expertise required to manufacture sophisticated products like the Yukon to prevent poor workmanship"_. However, this recommendation was too vague because it doesn't provide management with a plan on how to avoid this problem in the future. A better response would have suggested the need for proper training of the workforce or perhaps the hiring of the appropriate, specialized employees who would be able to manufacture according to the specifications outlined.
SUMMARY OF PROFESSIONAL SKILLS FINDINGS

You did not provide valid and/or clear steps that could be taken to mitigate the indicators of a potential going concern issue.

You discussed some of the indicators of a potential going concern issue for Razor. You did a good job explaining the potential impacts on Razor. However, you did not suggest any steps that could be taken to mitigate the going concern issue or given examples of evidence that you needed to obtain from the client to refute the going concern issue. For example, you identified that Razor no longer having the financial support of the parent company was an indicator of a potential going concern issue: "The parent company DE has indicated that it will not inject any more cash to Razor in the future which will limit their future financing options." However, you did not indicate what would be the impact on your audit work. A more complete response would have suggested that we look for evidence that Doyle has reconsidered the repayment terms of the last injection and is willing to invest more, or that other sources of financing have been looked into. Also, you identified that the covenant breach was an indicator of a potential going concern issue for Razor: "The bank covenant seems to be violated and if violated for more than 3 quarters then it can demand the entire loan to be paid on demand". However, you did not propose any action to be taken. A more complete response would have suggested that we contact the bank to find out about whether or not they intend to call the loan. Another way to mitigate the going concern issue would have been to ask Razor to provide a forecast which includes a plan for achieving the ratio going forward.

You did not properly explain the impact of the potential going concern issue on the audit report.

You did not recognize that the potential going concern issue could have an impact on our audit report. A more complete response would have explained that if the going concern assumption is appropriate but that there is material uncertainty, the financial statements should contain appropriate disclosure of the factors contributing to the uncertainty and an Emphasis of Matter paragraph needs to be added to the audit report in reference to that disclosure. You could also have explained that if the financial statements were to be prepared using an alternative basis, we might be able to express an unmodified opinion.

You did not provide a valid and/or clear conclusion as to the appropriate accounting treatment for the relevant IFRS issues.

You presented an adequate conclusion regarding the accounts receivable, the preferred shares, and the impact of the going concern issue on the financial statements. However, certain of your other conclusions were technically incorrect. For example, you discussed the value of the scrap inventory and concluded: "Therefore, the 800,000 should be expensed as part of COGS and inventory is lowered by this amount." This conclusion was not appropriate since even if part of the inventory came from off-cuts, those scrap pieces still had some value on the market. A stronger response would have calculated the net realizable value ($490/tonne at year end X 1,200 tonnes = $588,000) and concluded that the scrap inventory should be written down by $212,000 and not $800,000.
You provided procedures that were either too generic, not practical, or that did not address the risks related to the current audit.

The simulation presented a number of specific risk areas that needed to be addressed in order to ensure that your audit considered all of the relevant risks. You did a good job suggesting some specific procedures to mitigate the risk in the areas of the preferred shares and the patent “We will need to hire an expert to review the value of the patent to determine the actual write down amount”. However, some of the other procedures you suggested were not appropriate. For example, you provided an audit procedure related to A/R: “we should verify the past 180 days invoice and compare them with the market rates of steel for the appropriate periods”. However, the procedure you proposed was not useful because it would not give you any confirmation on whether the amount would be paid or not. An appropriate procedure would have been to look at subsequent payments after year-end in order to validate if the amounts were ultimately collected or to see if there is a written agreement between Razor and Manley Mann that could clarify what the sale price should be (invoice or market rate). If you would have that agreement, then you could go back to the last 180 days invoice to ensure that they were in accordance with that agreement. Also, you identified the risk area related to inventory but concluded that it should be written down to 0$. The procedure you suggested “we should review the general ledger of how Razor entered these amounts and make sure that it is removed” did not address the risks related to the current audit because you did not think there was any value to audit. An appropriate procedure to gain assurance over the existence of the inventory would have been to do a count as soon as possible and reconcile back to the year end using roll-back procedures. An appropriate procedure to gain assurance over the valuation of the inventory would have been to look at subsequent sales of scrap metal from Razor or to validate the market rate with an outside source.