PERFORMANCE ON THE COMMON FINAL EXAMINATION (CFE) AND PEP’S REACTIONS
Overview

SESSION DESCRIPTION

“The CPAC Board of Examiner’s staff will speak to candidate performance on the Common Final Examination (CFE) and PEP staff will speak to what it is doing to address those weaknesses. CPAC staff will use the CFE report to guide the discussion and elaborate on the specific strengths and weaknesses that are discussed in the report, and use some examples to illustrate/further support the discussion. Evaluation staff will also discuss some of the “pitfalls” we see in the candidates’ writing techniques and strategies and make suggestions as to how this high stakes examination should be approached. PEP staff will discuss the changes that have been made in the Core and Elective modules, in both online learning materials and face to face workshop activities to strengthen candidate’s performance of the CFE.
Part A- Evaluations Staff

1- Quick overview of CFE’s assessment model (5 mins)
2- Day 1- pitfalls and concrete examples (15 mins)
3- Day 2- pitfalls and concrete examples (15 mins)
4- Day 3- pitfalls and concrete examples (10 mins)
5- Other pitfalls/advice (5 mins)

Part B- PEP’s response to above (30 mins)
Q&A (10-15 mins)
Qualifying Professional Experience

Qualifying Professional Experience for Public Accounting

Professional Education Program (PEP)

Academic Prerequisites → 1 Core → 2 Core → 1 Elective → 2 Elective → Capstone Integrative Module → Capstone Evaluation Preparation → Final Evaluation → CPA

Required for Admission to Professional Education Program
- Undergraduate degree
- Specific subject area coverage

Common Modules
Six integrated core competency areas:
1. Financial Reporting
2. Strategy and Governance
3. Management Accounting
4. Audit and Assurance
5. Finance
6. Taxation

Elective Modules
Candidates choose any two modules:
- Assurance
- Performance Management
- Tax
- Finance

Public Accounting Candidates must choose:
- Assurance
- Tax

Common Capstone Integrative Module
- Leadership Skills
- Professional Skills
- Integration of Competencies

Candidates must successfully complete a profession developed capstone evaluation preparation course in order to sit the final exam

1 Candidates must demonstrate Breadth in all six core competency areas
2 Candidates must demonstrate Depth in two core competency areas:
- Financial Reporting or Management Accounting plus
- One from other core competency areas

Public Accounting Candidates must demonstrate Depth in:
- Financial Reporting
- Assurance

CAAAA
Promoting Excellence in Accounting Research and Education in Canada

ACPC
Promouvoir l’excellence dans la recherche et la formation en comptabilité au Canada

CPA
Chartered Professional Accountants Canada
Comptables Professionnels Agrees Canada
The CPA CFE

*Testing objective: Evaluate **CPA professional skills** through the application of technical knowledge in six areas to “real life” situations

A competency based assessment where each Day of the CFE does something unique:

1. Day 1 is evaluated **separately** from Day 2 and 3. It is “linked” to the Capstone 1 group case work. It assesses professional skills at a “high-level”.

2. Day 2 is the DEPTH test. It assesses technical DEPTH in 4 unique roles (that reflect the 4 CPA Electives) and provides DEPTH opportunities in common core - Financial Reporting and/or Management Accounting.

3. Day 3 supplements the DEPTH test in common core Financial Reporting and/or Management Accounting and is the BREADTH test for all six common core competency areas.
HOW ARE CANDIDATES DOING SO FAR??  Pretty good!

Candidates have three attempts to successfully complete the CFE. The cumulative pass rate is the percentage of candidates, from a single cohort, who successfully completed the CFE after the examination was offered three times in a row. In other words, the current cumulative pass rate follows the success of candidates who first attempted the 2015 CFE and were successful at that attempt, the May 2016 CFE or the September 2016 CFE.

Day 1 (background)

- Case targets “board room and senior management” level of discussion (which will be addressed later by the operational teams)

- Candidates told not to do detailed analysis.

- Day 1 is “linked”/related to the Capstone 1 case (worked on in groups for 8 weeks); candidates allowed to access their Capstone 1 case (not their group’s answer, nor the sample response)
Day 1 Assessment

BASIC PREMISE: Candidates are assumed to be able to respond to the case based on the 8 weeks spent on Capstone 1 case (since they passed Cap 1!) Day 1 is a holistic assessment- Pass or Fail only. **Assessment is looking for “fatal flaw” weaknesses in their responses.**

• Assessment focuses on the enabling competencies (skills)

• Assessment also looks at “links” to Capstone 1 (i.e., did they really understand the KSFs, mission, vision, objectives of the business?)

• Can think on their feet and adjust to the changes. I.e., If we “twist” the scenario/ provide new issues to deal with what do they do?
II. The Evaluation Process - Day 1

Day 1

Evaluating Responses to Individual Simulations

The CPA Way

Communicate
- Mechanics
- Organization
- Clarity
- Audience
- Tone

Conclude and Advise
- Results
- General guideline(s) and interpretation
- Implications and additional insights

Analyze Major Issue(s)
- Select and apply methods/tools
- Analyze thoroughly
- Evaluate information quality

Assess the Situation
- Rules of Professional Conduct
- Enabling competencies
- Integration
- Quick snapshot
- Situational features
- Work plan

CPA Mindset

CPA

CAAA, ACPC

Promoting Excellence in Accounting Research and Education in Canada
Promouvant l'excellence dans la recherche et la formation en comptabilité au Canada
1) Situational analysis
   • Simply recapped case facts (with no added value) OR
   • Too much depth in their situational analysis- redoing the entire analysis.

2) Analysis of major issues
   • Poor prioritization – focus on operational issues or one or two strategic issues rather than all major / strategic issues.
   • Poor Integration- no integration with their Situational Analysis (financial goal/ objectives, mission etc.); or no links between issues/case facts.
   • Quant/Qual imbalance – ignore numbers entirely, which could be a fatal flaw for the Day 1 case.

3) Recommendation and conclusion
   • Fail to incorporate their analysis into their recommendations.
   • Unclear conclusion, or conclusion could only be implied from their discussion.

4) Communication – Points could not be understood; must be “fatal” to affect assessment.

See DAY 1 HANDOUT for examples
BOE’S CFE REPORT for 2015 and 2016 can be found on CPAC’s website:
Day 2- Depth Tests

1. DEPTH in Role is = ELECTIVE level technical competency [choose 1 of 4 roles]= THIS IS COMPETENT LEVEL

2. DEPTH in COMMON Financial Reporting and Management Accounting= THIS IS COMPETENT LEVEL

3. Requireds are VERY directed

Highly technical day; “show us what you know learned in in the CPA program!”
PITFALLS, WEAKNESSES...

See DAY 2 HANDOUT for examples – ASSURANCE ROLE TANKCO CASE SEPT 2016

• Lack of depth of analysis, which includes: explaining the alternative approaches to an issue, using case facts and Handbook or Tax Act references to support the discussion.

• Technical weakness, which includes: applying the wrong section of Handbook or Tax Act (usually because identified the wrong issue); wrong technique used.

• “Creating” issues (adding issues to their discussions/no required)

• No conclusion, or inconsistent conclusion on an issue (doesn’t flow from analysis) [i.e. same as Day 1]

“Lawsuits

Lawsuits fall under ASPE 3290 Contigencies. The concern here is that a liability is only recognized if the cost can be measured and it is likely to happen. Since insurance covers the costs the deductible is always known so it is measurable. The concern is how likely the lawsuits are to actually happen. If a lawsuit was unlikely to succeed then no accrual needs to be done. This would increase revenue and increase equity. Since no information is given on the likelihood of any single lawsuit succeeding no adjustment has been made. We should speak to the lawyers to find out the likelihood for each of the individual lawsuits actually succeeding.”
Day 3- Depth and Breadth tests

1. Provide opportunities for DEPTH in Financial Reporting and Management Accounting (to balance Day 2) and BREADTH in the other areas=DEPTH IS COMPETENT LEVEL and BREADTH is REACHING COMPETENCE LEVEL.

2. Testing common CORE competencies only, but higher level of integration and judgment required to deal with the issues than in Core modules.

3. Requireds not quite as directed as Day 2.

Time constraint requires ranking of issues in additional to technical! Step back is required to see how issues impact each other (integration).
PITFALLS, WEAKNESSES…

See DAY 3 HANDOUT for examples-Sept 2016 CFE

• Lack of **depth** of analysis (FR and MA), i.e., **SAME as Day 2**

• Technical weakness, i.e., **SAME as Day 2**

• Lack of **breadth** i.e., not identifying enough of the issues

• Poor time management between simulations (ignore time estimates given)

• Poor ranking of issues (sometimes choose to address topics they are comfortable with in more depth/avoid harder issues)

• No conclusion, or wrong conclusion on an issue (doesn’t flow from analysis) i.e., **SAME as Day 1 and Day 2**

PITFALLS, WEAKNESSES..

OTHER comments on performance- applies to ALL 3 days

- Communication: points not always understandable, incomplete thoughts
- Misreading case facts/poor filtering of info.
- Spreadsheet: do not always explain what they are doing so hard to know where numbers are coming from/what assumptions are made, etc. (i.e. don’t write formula beside calculations) –see last e.g. on Day 3 Handout
- Inappropriate use of templates e.g. W-I-R; “always quant + quall”
- Poor integration between issue analyses– deal with issues in silo.

The BOE’S CFE REPORT for 2015 and 2016 can be found on CPAC’s website:
ADVICE  (IT’S NOT A SECRET... PASS IT ON!)

• Read the case carefully; make sure the requireds are clearly understood BEFORE starting to write response.
• Supporting analysis is essential to DEPTH: using case facts AND reference material (HB/Tax Act) to explain the issues and explain WHY they are issues; show and explain all supporting calculations.
• Beware of using “template approaches”; common sense/logic go a long way in determining which issues to put priority on!
• Step back and consider interrelationships (don’t just do each issue in silo).
• Wrap up the discussion (conclude/recommend).
• Communicate succinctly but clearly.
CFE Weaknesses and Pitfalls

- Technical weakness (Day 2 and 3)
- Lack of depth of analysis (Day 2 and 3)
- Missing issues / identifying the wrong issues (Day 3)
- Enabling skills
PEP Response

- Current redevelopment of modules to build on what is working and strengthen areas of weakness
- Core 1 and Core 2 redeveloped for release in January of 2018
- Elective redevelopment to commence next
Technical Weakness

PEP RESPONSE – ORACLE DOCUMENTS

Information presented concisely using steps, tables and charts where possible

Impairment of assets

An asset is considered to be impaired when an entity is unable to recover the amount of the asset. Impairment of assets is covered in IAS 36 Impairment of Assets.

Step 1: Level of asset grouping

Under IFRS, you ideally assess impairment based on independent assets. When a recoverable amount for an independent asset cannot be determined, impairment is assessed based on cash generating units (CGUs). A CGU is the smallest group of assets that generate independent cash flows from other assets or groups of assets. Identification of an asset’s CGU involves judgment.

For example, a vending machine would be an individual asset that generates cash, whereas an aircraft is a collection of assets that, when assembled, generates cash. If you separate a seat from the aircraft, the seat alone would not generate cash.

Step 2: When to test for impairment

Under IFRS, there are two incidents that lead to the requirement to test for impairment:

Examples throughout
Technical Weakness
PEP RESPONSE – ORACLE DOCUMENTS

4.1 Test your knowledge
One year after the impairment is taken, Firestone Company determines that the recoverable amount has increased to $250,000 due to increased market prices for the machine’s outputs.

Required:
Record the journal entry for reversal of the impairment, if any.

Answer

6 Practice problem
You are the Assistant Controller for Venture Ltd. and are preparing the financial statements for the December 31, 20X2, year end. Venture prepares its statements in accordance with IFRS.
Technical Weakness

PEP RESPONSE – MCQ BASED ON ORACLE

Nuts and Bolts Inc. (NBI) reports its financial statements in accordance with ASPE. Manufacturing equipment used to manufacture products that have not been selling as well as expected has been identified as potentially impaired. Relevant information to assist management in accounting for the equipment properly is as follows:

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

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

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

MCQ based on Oracle document

Instant feedback provided
Technical Weakness

PEP RESPONSE – ASSIGNMENT PROBLEMS

Core 1 — Week 1 Assignment Problems

Problem A


In 2005, Lisa’s nephew, Darren Carter, became the controller of the company. At first, Darren was very focused on the company. He instituted many worthwhile changes and improved the financial reporting process. More recently, however, Darren’s attention has shifted to a petroleum exploration venture that he and a couple of his university colleagues are pursuing.

On June 1 of this year, Darren resigned from Modern, acknowledging that he was spreading himself too thin. Lisa was understanding, but disappointed that none of her family wished to be actively involved in the business.

Lisa will be turning 64 this year and is starting to think about retirement. Currently, she personally guarantees the company’s bank loans; however, she is in discussions with the bank to remove this personal guarantee. Lisa feels that the company is financially healthy and profitable, and she is hoping that the bank will see that when the financial statements and this year’s review report are issued.

Short scenarios allowing for greater technical knowledge demonstration.

Marked with feedback by facilitator
Lack of Depth of Analysis

PEP RESPONSE – CONSISTENT WRITING APPROACH

This document serves as a quick reference for how to structure a written analysis of a financial reporting issue.

Achieving depth of analysis for financial reporting issues can be a struggle. By following a systematic approach, you will achieve a better quality of financial reporting analysis. This approach is useful when analyzing financial reporting issues both in case scenarios and at work.

Hint: See the end of this document for a practice problem that focuses on a financial reporting issue and a solution that incorporates these steps.
Lack of Depth of Analysis

PEP RESPONSE – PRACTICE CASES

- Practice case writing opportunities
- Annotations provided
- Facilitator feedback
- Debriefing video
- Solution is written using approach outlined in the enabling documents
Lack of Depth of Analysis

PEP RESPONSE – PRACTICE CASES

Due to financial pressure, in July 2016, PPI terminated its full-time accountant. In September, PPI hired a part-time bookkeeper. The bookkeeper does not have strong technical knowledge, but is very capable at recording PPI’s routine transactions and adjusting journal entries. Joan was always very hands-on in the business — reviewing the previous accountant’s work and taking care of much of the general office duties. However, in December she was forced to take a part-time job outside the company to help make ends meet. As a result, she admits, she is now overworked and has very little time to do her job properly. However, she has experience, and her review has been minimal.

PPI has been a client of Cumby and Menchions, Chartered Professional Accountants, since 2008. It is now August 1, 2017, and you, CPA, are responsible for the engagement. You are looking at your notes from a recent CPA engagement (Appendix I). The partner for the PPI engagement has requested that you prepare an engagement planning memo addressing overall financial statement risk, the engagement approach, and overall materiality. You have also been asked to address any financial reporting issues impacting the June 30, 2017, financial statements (Appendix II), which have been prepared under ASPE. In the prior year, risk was assessed as low.

Annotations that walk the student through the case

CPA
One of the owners was very involved with the bookkeeping in the past, providing some oversight control of the inputs to the financial statements. This is no longer the case, so this is an additional trigger that there may be financial reporting issues but, as above, it is still not a direct requirement.

CPA
User: The partner has requested several items from you; this makes the partner a user. Given that this person is a partner at a CPA firm, this means that he or she is a financially sophisticated user, and your audience tone and language for the required should be tailored appropriately.

CPA
Your user, the partner, has specified which parts of the audit planning memo to address. Since the partner has not mentioned audit procedures, but has specified other portions of the audit planning memo, this is an indication that audit procedures are not necessary for this case.

CPA
Required #1 (R1): Discuss the overall financial statement risk for the review.

CPA
Required #2 (R2): Discuss the approach and materiality for the review.
Lack of Depth of Analysis

PEP RESPONSE – PRACTICE CASES

<table>
<thead>
<tr>
<th>AO3 (Financial Reporting — Capital asset impairment)</th>
<th>Situation</th>
<th>Analyze</th>
<th>P</th>
<th>Conclude</th>
<th>N</th>
<th>Conclude</th>
<th>N</th>
<th>RC</th>
<th>RC</th>
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<tbody>
<tr>
<td>1 Identifies the financial reporting issue</td>
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<td>2 Identifies the event or change in circumstances indicating that the asset is impaired, using case facts.</td>
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<td>3 Identifies that the carrying amount of the asset is not recoverable if it exceeds the sum of the undiscounted cash flows and</td>
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<td>4 Calculates the impairment loss (considers at least 2 inputs and compares to carrying amount)</td>
<td>Analyze</td>
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<td>5 Recommends whether an impairment exists, consistent with the analysis.</td>
<td>Conclude</td>
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<td>6 Correctly discusses the impact of the adjustments on the financial statements and the current ratio.</td>
<td>Conclude</td>
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<td>NA The candidate does not address this assessment opportunity</td>
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<td>NC The candidate does not meet the standards for reaching competence.</td>
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<td>RC The candidate recognizes that there is a potential impairment issue related to property purchased for garden plots, in relation to case facts.</td>
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<td>C As for RC, and the candidate attempts to calculate the impairment loss ((considers at least 2 inputs and compares to carrying amount)</td>
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<td>CD As for C and the candidate discusses the lack of impact on the current ratio covenant from adjustments from either the greenhouse or the land.</td>
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Lack of Depth of Analysis

PEP RESPONSE – PRACTICE CASES
Lack of Depth of Analysis

PEP RESPONSE – PRACTICE CASES

Issue

CEM appears to be accounting for its contract revenues and costs. However, if all of CEM’s contracts take the same approach to booking revenues and expenses, we may have a significant accounting issue to address with respect to the recognition of the contract revenue and contract costs associated and the amounts ACC should pick up on a consolidated basis.

CEM appears to account for the contract payments received as revenue when collected and expenses the costs as incurred, i.e., on a cash basis. Based upon the contract, CEM will record $825,000 of revenue in 2018.

Handbook and analysis

IFRS 15 – Revenue from contracts with customers must be applied to determine when the revenue from the construction contract should be recognized. While this discussion addresses the one contract that we have reviewed, IFRS 15 states that an entity shall
Missing Issues/ Wrong Issues

PEP RESPONSE – PRACTICE CASES

• Practice case writing opportunities
• Annotations provided
• Facilitator feedback
• Debriefing video
Enabling Skills

PEP RESPONSE – ENABLING DOCUMENTS

This document serves as a quick reference for the decision-making process.

Decision-making is one of the key enabling skills that a CPA is expected to have. The decision-making process works effectively with the CPA Way and can be laid out as follows:

- Define the scope of the problem (assess the situation).
- Collect and verify information and perform appropriate analysis (analyze major issues).
- Make a recommendation based on an integrated analysis (conclude and advise).

Documents focused on non-technical skills such as decision making
Enabling Skills

PEP RESPONSE – ENABLING DOCUMENTS

Examples of enabling documents include

• Financial reporting issues
• Quantitative and qualitative analysis
• Sensitivity analysis
• Exam preparation
PEP Core Module - Week at a Glance

Oracle
- Technical, applied guidance
- Single-subject practice problems

MCQ
- Self testing
- Focused on application
- Instant feedback

Assignment Problem
- Builds on technical
- Begins to integrate
- Facilitator feedback

Practice Case
- Multi-subject case
- Case writing skills
- Facilitator feedback
QUESTIONS?

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