

“Don’t tell me what you know, show me what you can do”

Bridging the gap between education and professional practice:

A Canadian perspective from the Certified General Accountants Association

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ABSTRACT

Since its major redesign of the CGA Program Professional Studies of 1986, the Certified General Accountants Association of Canada (CGA-Canada) has applied the principles of competency-based education to its entire program of qualification in an integrated approach through education, examination, and experience.

In 2004, CGA-Canada presented a paper at the Association for Business and Economics Research (ABER) Conference outlining the process used for conducting a practice analysis survey, with the purpose of updating and prioritizing the core competencies of the program of professional studies and informing the professional development program.

This paper outlines the approach taken by CGA-Canada to ensure close, systematic linkage of competencies between the curriculum, examination, and practical experience requirements of its online professional program, with the goal of ensuring that all newly certified CGAs have demonstrated the requisite level of proficiency in the broad range of competencies. It describes the process developed to update and revise the program based on the results of its 2002-03 practice analysis.

This paper also provides a Canadian example of how the links between what an accountant learns in a professional program can closely replicate what an accountant is called on to demonstrate in practice. This includes ethical and professional judgment, leadership, and other enabling skills required of all professionals.

INTRODUCTION

The Certified General Accountants Association of Canada (CGA) is a national self-regulating association of 68,000 Certified General Accountants and students. CGA is one of three professional accounting certification bodies in Canada.

To become CGAs, candidates¹ must complete the Professional Applications and Competence Evaluations (PACE) courses and examinations, as well as the Association's practical experience requirements. The PACE program gives students an opportunity to choose from four career options; the program must be taken through the CGA Association.

Prior to entering the PACE level of the CGA program, candidates will have completed the 14 prerequisite courses and examinations and a Bachelor's degree from a recognized post-secondary institution (see Exhibit 1 for a diagram of the CGA program). All prerequisite courses and examinations may be taken directly through the CGA Association. CGA is unique in Canada as it is the only professional accounting association that offers a full education program leading to the professional (PACE) or certification program. All other accounting bodies offer a professional program only.

To enhance flexibility, CGA students may earn transfer credit for the PACE prerequisite requirements through studies at post-secondary institutions. These 14 transferable courses comprise the Education component of the Program. They provide students with the prerequisite knowledge and skills for the PACE level courses and examinations. The majority of students are working full-time in the field of accounting or financial management while enrolled in the Program of Professional Studies. The CGA PACE and Education level courses are designed for distance education and online delivery.

CGA'S COMPETENCY-BASED PROGRAM

The CGA Program of Professional Studies has been competency based for a number of years. In all aspects of the program requirements (education, examination, and practical experience), the emphasis is on demonstrating knowledge, skills, and abilities required to perform a task or role expected of a professional accountant. More formally, competency is defined as a specific behaviour whereby a professional applies knowledge, skills, and/or professional values in a work environment; the behaviour can be defined, demonstrated, observed, and assessed (CGA 2002).

The CGA competencies were initially determined by focus groups of members and have been validated periodically through reviews by practitioners in various fields of practice. In 1996, a Professional Practice Panel was formed to conduct a practice analysis to establish competency-based standards for the PACE requirements, including a new integrative final examination in Professional Applications. A list of competencies, drawing on previous research, was validated through regional focus groups. The validated core competencies were used to update the

certification requirements; they also provided the basis and initial blueprint for the Professional Applications examination.

Given the demands of the marketplace, the need for public trust in the financial reporting and auditing processes, increased regulation and related compliance issues, and the progress of technology, CGA initiated a full scale practice analysis in 2002-03. A comprehensive survey of members, professional recruiters, and employers yielded an updated list of competencies required of all newly certified CGA (core competencies) along with knowledge topics required to support the competencies.

The results of the practice analysis indicated that the competencies rated most essential to a newly certified CGA were related to Professionalism (Ethics and Trust) and General Management (Communicating). Among the technical competency domains, financial accounting and reporting, management accounting, and taxation ranked highest. The full list of competency domains appears in Appendix 1. The results also reflected the priorities of the broad accounting environment, with ethics and trust and financial accountability being of great concern in the wake of financial scandals such as Enron, WorldCom, and Nortel.

The challenge then for CGA was to update its certification requirements, ensuring that the required competencies of a newly certified CGA were developed and assessed for all candidates, and providing the necessary linkages with the practice analysis results to strengthen the validity and defensibility of the PACE program.

UPDATING THE CERTIFICATION REQUIREMENTS

Given that candidates are eligible for entry to the PACE level by either completing their education through CGA or through other recognized post-secondary institutions, CGA updated the PACE level to develop and assess the majority of the professional competencies required of a newly certified CGA. PACE is the only level that all candidates are required to complete through CGA.

To ensure comprehensive coverage at the PACE level, each of the competencies from the practice analysis was mapped to one or more of the program components where it was most appropriately assessed: course, examination, and/or professional experience. The resulting matrix was then validated by content experts in the field. In addition, the existing learning objectives for each PACE level course were attributed to one or more competency. This allowed CGA to identify any gaps in competency coverage, and any extraneous content not directly related to competencies. Where possible, the competencies are covered in more than one component to provide for a variety of assessment points and greater evidence of a candidate's competency.

As a result of the mapping process, it was determined that to assess the broadest spectrum of competencies in a professional context, two comprehensive professional applications courses and exams should be required at the PACE level. The previous Professional Applications 1 requirement was redesigned and complemented with Professional Applications 2. This change more closely aligned CGA with the International Federation of Accountants International Education Standard #6 – Assessment of professional capabilities and competence (IFAC 2005).

Professional Applications 1 (PA1): Issues in professional practice was revised to emphasize the context of an accountant external to the organization providing tax, assurance, or business advisory services. *Professional Applications 2 (PA2): Strategic Financial Management* was developed to emphasize the context of the accountant internal to the organization providing strategic financial leadership, with a focus on management accounting, finance, and strategic management competencies. A newly certified CGA must have a minimum level of competence in both professional contexts; therefore, all candidates must pass both courses and examinations, regardless of their chosen career option.

PA1 and PA2 are professional applications (PA) capstone courses and exams that require candidates to apply and integrate knowledge from their education level (pre-PACE) courses to authentic scenarios typically encountered in professional practice. Detailed technical knowledge of specific areas such as tax, auditing, and finance are not tested, as this knowledge was assessed in the prerequisite courses. Candidates are required to demonstrate both technical and non-technical competencies. They are assessed on their ability to grasp key issues, their interrelationship, and their impact on the problem or decision at hand. The PA component is the last one completed, once all career option courses and examinations have been passed.

In the review of the certification requirements resulting from the updated practice analysis results, the career option courses and examinations remained in the PACE program. They are designed to add depth to the technical competencies of a career option beyond the minimum level required of a newly certified CGA. The career option courses also provide opportunities for candidates to develop core competencies in the areas of ethics and trust, communication,

problem solving, integration, and research. Candidates are required to complete two career option courses, which prepare them to be successful in the PA courses and exams and provide additional evidence of competence in the more general non-technical competencies.

CGA considers the PACE program, in particular the PA courses and exams, as the value-added that the association contributes to the candidate's preparation for an accounting career. PACE complements the prerequisite academic requirements by using scenarios and simulations generated by practicing members and refined by experts in the field to assess specific competencies. Candidates are assessed on their ability to develop realistic solutions that address not just the individual issues but their interrelationships.

The mapping process was continued to determine, for each competency, the specific course(s) and examinations in which it would be covered. This was done to ensure that the set of PA courses and examinations, together with the two career elective courses, results in a candidate having demonstrated competence in a majority of the competencies required of a newly certified CGA. The Practical Experience Assessment Questionnaire provides additional evidence of candidates' proficiency.

LINKING TO COMPETENCIES

The competencies are the key linking mechanism between curriculum, examination, and practical experience. The course and examination development process adopted by CGA requires that each of these components be checked against the competencies and the practice analysis results at various stages.

Curriculum Component

Using the competency list for each course, produced from the mapping process previously described, the subject matter experts for the courses develop performance-based learning objectives. Competencies are worded more generally than learning objectives and describe a larger area of professional activity. So for purposes of acquiring a competency, there will usually be several learning objectives, which translate the broad competency statements into learning outcomes in the context of a specific course. For example, “Evaluates risks and business issues to determine their impact on the engagement” is a technical competency related to assurance. Two learning objectives that support that competency are: “Explain the meaning of materiality and inherent risk” and “Determine the inherent risk and materiality for a given client.”

Each learning objective is assigned a specific level of competence to indicate the required depth of learning and demonstrated performance. The three competence levels are Essential, Important, and Background. Their definitions are based on *Bloom's Taxonomy* (Bloom 1956), the educational standard for cognitive levels of learning (thinking and reasoning skills). The levels appear in the course materials and are keyed to the levels of competence tested in assignments and examinations.

Appendix 2 gives the definition of each level of competence, specifying the level of performance that must be demonstrated. For the PACE courses, the requirements are more stringent than for the lower level courses. Also, the action words for the learning objectives reflect the higher order thinking and reasoning skills.

For example, here are some learning objectives related to the finance technical competency “advises on financing to meet the organization’s goals,” covered in the Advanced Finance course:

- Evaluate the cost of term loans to the borrower (Level 1)
- Analyze the refunding of a bond issue (Level 1)
- Analyze the refunding of a preferred share issue (Level1)

The specific performance expectations related to these objectives are as outlined in Appendix 2, under Essential (Level 1), as they relate to the PACE level courses.

The Professional Applications capstone courses are designed somewhat differently. In addition to learning objectives related to specific competencies not covered at the Education level, these courses assess a variety of competencies that are not explicitly covered in the PA courses but are related to technical knowledge acquired and tested in prerequisite Education level courses. The Professional Applications courses and exams assess many competencies, particularly the technical ones, at a broad level, requiring integration and application of knowledge. Candidates are provided with summaries of content from prerequisite courses as well as course refreshers to assist them in reviewing technical knowledge in the areas of taxation, assurance, advanced financial accounting, management accounting, accounting theory, and finance. To ensure currency, candidates are also provided with updates to accounting and auditing standards and taxation legislation covering the past three years.

Each course includes an assignment component. For PACE courses, the assignments consist of competency-based questions that assess students' ability to apply or perform specific competencies. Questions are based on work-related professional accounting situations in which demonstration of a competency would be expected, such as case studies, client reports, and professional research. The requirements are framed around key tasks and important outcomes of the situation, and as with learning objectives, use Bloom's taxonomy. They go beyond application of technical concepts to high-level synthesis and integration. Solutions typically feature a list of issues that students could cover, and in the PA courses, there is a grid that describes an increasing level of performance in the required competency areas. Appendix 3 provides a sample assessment from PA2, showing the performance descriptors.

A variety of methods are used to assess candidates. Group discussions of cases and scenarios, group projects, case studies, and simulations are incorporated in PACE courses to varying degrees, depending on the competencies to be assessed.

The assignments form part of the overall competency assessment process and add to the candidate's portfolio of evidence of competence. Course assignments are viewed as preparation for the examination and provide opportunities to assess competencies that are difficult to assess on a paper and pencil examination, such as leadership. Feedback is provided by markers, who outline areas for improvement. Candidates must pass the course assignments to become eligible to write the final examination, which accounts for 100% of the final course grade.

Given that the CGA PACE program is delivered online, it is deemed necessary to require that candidates pass the final examination to pass the course in order to maintain the security, integrity, defensibility, and fairness of the certification process.

Examination Component

Each course at the PACE level culminates in a four-hour examination that assesses whether students can demonstrate the required competencies. The examination questions are designed to assess defined levels of competence. Thus, for each examination, CGA prepares a blueprint indicating for each question the specific topic(s) on which it is based and the level of competence required. As part of the development and review of the examination by professional committees, the requirements of each question are checked for validity—to confirm that what the student is expected to demonstrate in terms of outcomes matches the related competency, topic(s), learning objective(s), and level(s) of competence.

The development process ensures there is a close link between the competencies, learning objectives, course assessments, and final examinations, guided by the levels of competence. Each element is reviewed by content experts and practitioners for consistency and validity, with a focus on requiring students to demonstrate competent performance.

For the PACE career option examinations, students must achieve a mark of 65% on the final examination to pass the course.

The professional applications examination development is somewhat different in that it involves a team of item developers from different fields of practice. Questions (items) are developed and reviewed based on the competencies to be assessed on each examination. Examinations are assembled using the items, to ensure adequate coverage and weighting of the competencies. The weighting of the competencies on the examination is closely matched to the essentiality and importance of weightings from the practice analysis. It is critical for validity and linking to professional practice that the examinations reflect the priorities of the profession. Competency coverage and weightings are communicated to candidates through the blueprints. The professional applications examination blueprints also link each of the competencies to be assessed to specific knowledge topics from the prerequisite education level courses. (Example examinations blueprints can be found at <http://www.cga-canada.org/servlet/custom/workspace?isSubpage=true&docid=/733/855/&objectKey=855&navId=731&secId=733&nav=main&navStyle=tree>)

The marking of the professional applications examinations is fully competency-based. That is, candidates are rated on how successfully they demonstrate the competencies covered by the questions rather than being awarded marks for particular answers. This type of marking considers the candidate's performance more holistically, as each candidate is rated against stated performance standards for each competency. Candidates are required to demonstrate competent performance on the key competencies, and on a number of secondary competencies, to pass the examination. Results are then released to candidates in terms of Pass/Fail rather than a numerical report. Feedback is given to unsuccessful candidates in terms of their performance on the competencies.

The entire PA exam development, marking, and reporting process is not detailed here; however, it is completed in conformity with best practices as outlined in National Commission for Certifying Agencies Standards (NCCA 2003) and IFAC guidelines (IFAC 2005).

Practical Experience Component

Practical experience plays an important role in developing and assessing competence. A number of the professional competencies may be more appropriately assessed through on-the-job demonstration of performance than through other means. The practical experience policy requires that students must satisfactorily complete the equivalent of 36 months of relevant practical work experience (the IFAC standard) and related assessments, demonstrating increased levels of responsibility as they move to higher levels of the program of studies. A list of specific competencies was developed using the results of the practice analysis. The list is reviewed periodically, integrating IFAC recommendations on practical experience, to guide and assess the experience of students prior to certification.

The practical experience assessment document uses a competency-based approach. It specifies competency sets in leadership skills, applied business/management skills, personal management skills, and professional ethics. Competencies are assessed at two levels: foundation experience (entry level to intermediate positions) and professional experience (professional level of responsibility and decision making).

DEVELOPING AND ASSESSING NON-TECHNICAL COMPETENCIES

The 2002-03 practice analysis confirmed the importance of non-technical skills. In particular, ethics and trust, communicating, integrative approach, and problem solving were all identified as being required of a newly certified accountant. In some cases, they were rated more essential than the technical competencies. The challenge for professional programs and education providers is how to develop and assess these skills without adding significantly to an already content-heavy curriculum.

CGA developed an integration philosophy a number of years ago that has proved successful. All CGA courses (PACE and Education level) integrate the following skill components:

- **Ethics:** Each course includes access to the *Ethics Reading Handbook*, which is a compilation of readings categorized into three sections: basic ethics, business ethics, and professional and accounting ethics. Each section includes commentary from CGA's ethics consultant, who provides an overview and context to the readings as well as questions for reflection. Basic ethics is required reading for all courses. Course authors work closely with the ethics consultant to develop typical ethical issues encountered in the context of the field of study and link students/candidates to appropriate sections of the Handbook. Assignment and examination questions incorporate ethical issues. At the PACE level, specific ethics competencies are emphasized in the assignments and examinations to ensure that all candidates provide evidence of competence in this critical area. In addition to basic ethics, the professional and business ethics section is required reading for all PACE courses. An ethics integration grid for the entire program has been

developed and is maintained to track the ethics components in each of the courses and examinations. As courses are revised and examinations developed, the grid is used to plan the type of ethics coverage to be included.

- **Case analysis:** Cases and simulations are used regularly as a method to replicate scenarios encountered in practice. They allow students and candidates to develop many of the required problem-solving, integration, and communication competencies. They are used extensively to assess candidates in the PA1 and PA2 courses and examinations. Students are introduced to cases in the Education level courses. As they progress through the program and into the PACE level, cases increase in complexity and length. A case analysis methodology resource is provided in all courses, with specific examples on applying the techniques. The PA courses provide more depth in case analysis techniques, providing practice at identifying and integrating issues, understanding their interrelationships, and providing practical recommendations.
- **Communication:** Most CGA courses and examinations require students to prepare appropriate communications. Letters and memos to clients, reports, analysis, and opinions are all required to be at a professional level. The expectations increase as students progress through the program. At the PACE level, candidates are evaluated on the communication competencies through a variety of methods, including online discussions. Oral communication skills are evaluated through practical experience. Each CGA course includes resources to help students develop their communication skills. Similar to the ethics integration grid, a communications grid tracks the types of communication tasks and skills that are integrated into each course and examination and is used as a basis for planning future revisions and exam development.

In addition these skill components, which are included in all courses, the PACE courses are designed to integrate the following skills:

- **Leadership:** Leadership is a challenge to assess in an online environment; however, candidates will have an opportunity to demonstrate leadership competencies through the practical experience requirement. The PA courses require candidates to participate in online discussions and complete a group project to assess leadership competencies such as “Invites and accepts constructive input and feedback from team members.” Some of the PACE career option courses also include this requirement, and it is planned to expand the integration of this competency into more PACE courses.
- **Critical thinking:** PA2 contains a module on critical thinking and analysis, which builds on the case analysis resource material included in all courses. The module links critical-thinking skills to specific competencies to be assessed, such as “Applies professional skepticism.” Increased integration of critical thinking is planned for the future, including the development of a resource to be included in all courses.

INTEGRATING SOFTWARE

The CGA program is designed to ensure that new members are fully literate in computer and information technology. Students are required to have access to a computer that meets minimum requirements (as published yearly by CGA). All courses are delivered online and require students to be familiar with the Internet, e-mail, and the course management system.

Most courses integrate the use of software, as encountered in the field of study. For example, the use of spreadsheets to complete financial analysis is integrated into the finance and management accounting courses. Accounting, auditing, and taxation software are required in the related courses. At the PACE level, software is used as a tool for analysis and problem solving to demonstrate the competency “uses technological tools in the workplace.” CGA provides a number of computer tutorials in the use of Windows, Excel, and accounting software as references for students. In this way, the courses can focus on the application of the software as a tool rather than on teaching the software.

Examination questions also integrate software skills, as questions require students to have general familiarity with the software to be able to respond adequately. For example, students may be required to interpret or analyze a report generated by the audit sampling software to address an issue raised in a case. A review of all software integrated in the program is performed periodically to ensure that the most appropriate tools and the ones most likely to be encountered in practice are integrated in the courses.

CONCLUSION

As a professional accounting body certifying members, CGA has a duty to ensure that all newly certified CGAs have demonstrated a minimum level of proficiency in the broad range of core competencies as determined by a practice analysis. This paper has provided an example of how CGA, through its professional PACE program, closely replicates what an accountant is called on to demonstrate in practice. Each candidate is required to demonstrate competency through the three components of certification: education, examination, and experience. This process provides

a breadth of evidence of competent performance that minimizes the risk of admitting unqualified candidates into the profession.

Much of the work that CGA undertook in updating the program to the 2003 practice analysis results revolved around improving the methods used to collect valid and reliable evidence of competent performance and providing a greater variety of opportunities for candidates to “show what they can do.” The next practice analysis update is planned for the Fall of 2007, with results expected to generate further enhancements to curriculum, examinations, and practical experience to create even tighter links to professional practice.

¹ candidates refers to CGA students in the PACE level. At the education level, they are referred to as students

REFERENCES

Bloom B. S. (1956). *Taxonomy of Educational Objectives, Handbook I: The Cognitive Domain*. New York: David McKay Co Inc

Certified General Accountants Association of Canada, *Practice Analysis Survey*, Vancouver, CGA, 2002

International Federation of Accountants. *International Education Standards for Professional Accountants #6, Assessment of Professional Capabilities and Competencies* 2005

National Commission for Certifying Agencies, *Standards for the Accreditation of Certification Programs*, 2003



Exhibit 1: CGA Program of Professional Studies**PROGRAM OF PROFESSIONAL STUDIES**

CGA CERTIFICATION ¹			
PROFESSIONAL APPLICATIONS AND COMPETENCE EVALUATIONS (PACE)			
PA1: Issues in Professional Practice		PA2: Strategic Financial Management	
Career Options			
Choose one of the following options.			
CORPORATE AND SMALL-MEDIUM ENTERPRISE <ul style="list-style-type: none">• Advanced Corporate Finance• Information Systems Strategy <i>or</i> Internal Auditing & Controls	INFORMATION TECHNOLOGY <ul style="list-style-type: none">• Information Systems Strategy• Internal Auditing & Controls	GOVERNMENT AND NOT-FOR-PROFIT <ul style="list-style-type: none">• Public Sector Financial Management• Information Systems Strategy <i>or</i> Internal Auditing & Controls	PUBLIC PRACTICE <ul style="list-style-type: none">• Advanced Personal & Corporate Taxation• Advanced External Auditing

Bachelor's degree to be completed.

Advanced Studies

LEVEL 4	Financial Accounting: Consolidations & Advanced Issues Advanced Management Accounting Accounting Theory & Contemporary Issues External Auditing Personal & Corporate Taxation Public Practice Audit Case	FA4 MA2 AT1 AU1 TX1 BC2
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Foundation Studies

LEVEL 3	Financial Accounting: Liabilities & Equities Corporate Finance Fundamentals Management Information Systems Accounting Business Case	FA3 FN1 MS1 BC1
LEVEL 2	Financial Accounting: Assets Business Quantitative Analysis Management Accounting Fundamentals Business Communications	FA2 QU1 MA1 CM1
LEVEL 1	Financial Accounting Fundamentals Micro & Macro Economics Business Law Computer Tutorials	FA1 EM1 LW1 CT1-3

¹ Practical experience requirements must be completed before certification.

Appendix 1: List of Competency Domains**CGA COMPETENCY DOMAINS****TECHNICAL KNOWLEDGE***Financial accounting and reporting**Management accounting**Assurance**Finance and financial planning**General business**Information technology**Taxation***GENERAL MANAGEMENT***Planning resources**Allocating and managing**Measuring and monitoring**Communicating***LEADERSHIP***Organizational and strategic leadership**Staff coaching and development**Team leadership and development***PROFESSIONALISM***Client focus**Integrative approach**Professional development**Ethics and trust**Problem Solving**Professional self-evaluation*

See the complete list of competency statements at:

http://www.cga-online.org/servlet/portal/serve/Library/Programs/Education/Competency/ca_edu_competencies.pdf

Appendix 2: CGA Levels of Competence

Levels of competence are used to indicate to students the required depth of understanding and application of the course topics. The three-level scheme used in CGA courses is designed to help students identify those areas of study that are of most importance as well as those areas that require less concentrated study. It also helps students understand what is expected of them on assignments and examinations as they progress from the foundation studies to the professional level of the program. For course authors, the expectations outlined for each level of the program will assist with the formulation of learning objectives and assignment requirements. Material at all three levels of competence is examinable.

Each course topic (and corresponding learning objective) is assigned a level of competence based on the following definitions:

- Level 1: Essential
- Level 2: Important
- Level 3: Background

LEVEL 1: ESSENTIAL

Students are required to attain an in-depth understanding of concepts and principles; develop a sound conceptual and comprehensive technical knowledge of procedures; become proficient in the application of knowledge to practice; and become a proficient user of reference documents and sources for further study. Examinations will focus primarily, but not exclusively, on Level 1 material, and the requirements for questions dealing with this material will be the most extensive. In responding to examination questions based on Level 1 material, students should be able to demonstrate increasing levels of mastery as they progress through the program.

For **Foundation Studies** (Level 1 to 3) courses:

Students should be prepared to:

- apply concepts and techniques to new situations
- perform calculations to create appropriate solutions
- analyze given information to make preliminary conclusions

As part of their analysis, students will be expected to break down information into its component parts, discriminate between relevant and irrelevant information, and differentiate facts from assumptions or inferences.

For **Advanced Studies** (Level 4) courses:

Students should be prepared to analyze information to make preliminary conclusions. As part of their analysis, students will be expected to break down information into its component parts, discriminate between relevant and irrelevant information, and differentiate facts from assumptions or inferences. They will also be expected to begin integrating concepts and ideas.

For **Professional** (PACE level) courses:

Students should be prepared to:

- thoroughly analyze given information
- synthesize information to form a sound evaluation of a situation
- make recommendations that are well supported and add value for the decision-maker
- apply and implement knowledge as a competent professional would in normal circumstances, within a reasonable timeframe and without supervision

LEVEL 2: IMPORTANT

Students are required to attain a sound understanding of concepts, principles, and procedures; develop a working knowledge of procedures; and become familiar with common reference documents and sources for further study. Examinations will likely assess some Level 2 material, but the question requirements will be generally less extensive than for Level 1 material. In responding to examination questions based on Level 2 material, students should be able to demonstrate increasing levels of comprehension, application, and analysis as they progress through the program.

For **Foundation Studies** (Level 1 to 3) courses:

Students should be prepared to describe, explain, and summarize information in their own words, as well as provide examples. They will not be required to demonstrate in-depth application of concepts or provide in-depth analysis.

For **Advanced Studies** (Level 4) courses:

Students should be prepared to:

- describe, explain, and summarize information in their own words, as well as provide examples
- apply concepts and techniques to new situations
- perform calculations to create appropriate solutions

Students will not be required to provide in-depth analysis or evaluation.

For **Professional** (PACE level) courses:

Students should be prepared to:

- apply concepts and techniques to new situations
- analyze given information and develop preliminary conclusions
- break down information into its component parts, discriminate between relevant and irrelevant information, and differentiate facts from assumptions or inferences.

Students will not be required to provide in-depth evaluation or make complex recommendations.

LEVEL 3: BACKGROUND

Students are required to acquire a general knowledge of broad topic areas and identify common reference documents. Although Level 3 material is examinable, the question requirements are limited to general knowledge and comprehension. Students may find this material to be a valuable reference resource in their practical experience. In responding to examination questions

based on Level 3 material, students should be prepared to demonstrate their knowledge and comprehension as follows.

For **Foundation Studies** (Level 1 to 3) and **Advanced Studies** (Level 4) courses:
Students should be prepared to recognize when this material is applicable or why it is relevant, but they will not be required to demonstrate an in-depth understanding of concepts.

For **Professional** (PACE level) courses:
Students should be prepared to recognize why this material is relevant and understand it well enough to be able to describe or explain it in their own words, summarize the information, or provide examples. They will not be required to provide in-depth analysis or evaluation.



Appendix 3: Sample Case and Solution for PA2: Strategic Financial Management course

3 Sisters Bookstore

Theresa, Jeannie, and Sheila, the three sisters who own 3 Sisters Bookstore, are considering expanding their business to a second and third location in the upcoming year. In anticipation of this event, they have decided to hire you as a part-time controller to help them with the management and structure of the expansion and the resulting increased accounting duties. At your first meeting, the sisters discussed a number of business possibilities with you and sought your advice. You agreed that, at the next scheduled meeting three days from now, you would do the following:

- go over the advantages and disadvantages of the expansion options
- make recommendations that would increase the probability of success
- advise them of the best course of action

Background

Theresa, Jeannie, and Sheila live in Saraville, Ontario. Saraville has approximately 30,000 inhabitants and is 30 km from the closest large city. The population of Saraville has been static for the last 20 years because the water supply for the town comes from a well system that cannot support any additional growth. A major pipeline is currently being connected to the town, which will allow the town to develop.

Six years ago, the three sisters, who have a passion for books, opened 3 Sisters Bookstore (3 Sisters). The store is located in downtown Saraville in a heritage building. The sisters believe the historical building helps attract clientele from outside the local area. As there were a number of vacant store spaces in Saraville, 3 Sisters was able to sign a 10-year lease for the property with a 5-year renewal term. Rent is \$2,000 per month, excluding utilities, for the balance of the lease. There are inexpensive parking spaces beside the store, and it is estimated that 95% of the customers drive to the store, with 40% of the regular customers driving up to 20 km to visit the store.

The business operates as a partnership; however, no partnership agreement was drawn up. No major problems have surfaced in the six years, and when issues arise, the sisters have always been able to resolve them to their mutual satisfaction.

Jeannie and Sheila work full time for different employers. They also put in two evenings a week and one day on the weekend in the bookstore. When there are special functions, they spend extra time at 3 Sisters. Jeannie and Sheila both have young children, and they feel it is important to balance their jobs, family, and business commitments. They consider the earnings from the bookstore as a “retirement” fund and have never withdrawn money from the bookstore. Therefore, the partners’ earnings have continually been reinvested in the business, which has allowed it to operate on very few loans.

Theresa works full time in the bookstore — five days and two evenings a week. She acts as the operations manager and oversees the ordering of books and supplies, payment of bills, and all personnel and other issues. She often stays late to help out or catch up on paperwork.

On start-up of the bookstore, Jeannie and Sheila each contributed \$50,000 in operating capital. The money came from their personal savings and a small bank loan, which has now been paid off. Theresa, who had just finished university, had no start-up capital to contribute, but she works full time and runs the

operation, drawing \$600 a week in salary. Each sister shares the profits equally. All other funds are left in the business as working capital and to minimize the need for bank loans.

In addition to the hours put in by the partners, 3 Sisters also employs three full-time and five part-time staff, including you. The full-time staff have been with the bookstore since it opened and are trusted employees. The part-time staff (other than you) usually work two years. Turnover of part-time staff is due to the fact that half of the staff are high-school students and are expected to leave 3 Sisters to attend university.

3 Sisters has been very successful in the current and two prior years, as shown in the financial statements in Exhibit 1. Profits have been increasing, except for 2001, when a small fire broke out at the store. Because 3 Sisters carried no fire insurance, the loss was not covered, and this affected the profits.

There are two other chain bookstores in town, as well as a warehouse-type bookstore about 35 km from Saraville. While the sisters are aware of the potential competition, they attribute 3 Sisters' success to the unique and personal service they offer. Theresa knows all regular customers by name. Literary social functions are held on a weekly basis, such as readings by authors, biweekly book club meetings, and participation in Internet-based book discussion groups. One afternoon a week, the store offers childcare services so that parents can browse through the store freely. In childcare, stories are read and videos are shown, which often result in sales of the book or video. These functions draw many regular clients to the store, and sales at special functions account for 50% of sales. 3 Sisters also offers a special-order desk for clients seeking titles not in stock. These special orders account for 15% of sales.

The store is open seven days a week and at least one of the three sisters is present in the store during operating hours. This enables them to have personal involvement with their customers and keeps them up-to-date on customer needs and interests. It also allows them to oversee all the store's operations and address problems quickly. The three sisters have two formal meetings a week to discuss what has happened and keep each other up-to-date.

3 Sisters' accounting system is unsophisticated. Sales are hand-recorded on three-part carbon-loaded, pre-numbered sales invoices. Neither an electronic cash register nor a computer is used. The store accepts cheques and credit cards. Credit card sales are not authorized electronically but are hand-recorded on credit card slips. There have been occasional rejects from the bank due to expired or invalid cards, but cheques have rarely bounced.

The sales slips and a small amount of cash are left in the store each night. Theresa takes all bills larger than \$10 home with her each night. She feels this is safer than leaving the money in the store overnight because there is no security system. The following morning, she brings the cash back, records the previous day's sales by totalling the sales invoices, and prepares the bank deposit. A reconciliation of the numerical sequencing of the sales invoices is not done. The sisters feel that there is no need to do so because this would take away from the atmosphere of trust they have created and encouraged. Theresa then deposits the cheques and cash received each day Monday through Friday. Receipts from Saturday and Sunday are deposited on Monday morning because the local bank closes at noon on Saturdays.

All bills received the previous day are paid immediately the following day, regardless of the vendors' terms. This way, they don't have to implement a formal accounts payable system, which would add complexity to their operation.

3 Sisters has no inventory control system, and the sisters don't think they need one. Because they are closely involved with the operation, they know what is selling and what is not. They feel their staff and regular clients are extremely trustworthy and theft is minimal. Occasionally, a child has taken an item without paying, but the parent would call and either return the item or pay for it the next time they come to the store. All customers are greeted when they enter the store. New customers are offered assistance or an explanation of the layout of the store. The store philosophy is that treating people in this manner lessens the likelihood of shoplifting.

The regular employees receive a paycheque every two weeks based on the number of hours worked times their hourly wage at 80%. The 20% difference represents an estimate of source deductions.

On the first day of each month, 3 Sister's external accountant records all transactions of the previous month from the sales summary, the duplicate deposit slips, the cheque register, any invoices in support of cheque payments, and the employee time cards. The accountant records all the information in a computerized accounting system and determines the proper source deductions for the previous month's payroll. Within six days of receipt of the records, Theresa is given a monthly income statement and balance sheet, a listing of payroll, and GST and sales tax remittances that need to be made. The accountant also provides a summary of payroll over- and under-payments and prepares all the cheques with Theresa's approval, who distributes them on the day she receives the summary. The system has worked well and the staff of 3 Sisters is happy with the arrangement. On occasion, when the 20% holdback is insufficient, the shortage is deducted from the employee's next paycheque. If the employee wants an explanation, Theresa refers the employee to the external accountant. The 3 sisters are hoping that you can perform these duties now, and thus they would only need to retain the external accountant for the preparation of their individual tax returns.

Upcoming development

A major pipeline is being connected to the town, which will allow the town to issue new building permits for the first time in 20 years. Population is expected to grow from the current level of 30,000 to 100,000 over the next five years.

Current statistics in Saraville follow:

- Approximately 60% of the working population work either in town or within 6 km of the town.
- 25% of the working population work outside of town, up to 20 km away.
- 10% of the population is retired.
- There is no statistical information on the remaining 5%.
- 59% of the population consists of two-parent families averaging 1.8 children.
- 24% of the population consists of single-parent families averaging 1.3 children.
- 17% of the population is single.

Town council recently approved the official building plan, allowing construction of several family-oriented residential areas and two new malls (one at each end of the town) but no new industrial areas or apartment buildings. The decision not to approve high-density residential buildings was based on the desire to meet the needs of the families in the community. The residential construction will start in three months, and the presale of both single-family houses and townhomes is going well.

Alan, the owner of the first new mall to be built, has started seeking new tenants. Completion of this mall is expected in 15 months, while the second mall is scheduled to open 9 months after the projected completion of the first mall. Alan is a family friend of the sisters and has approached them about opening a store in the mall. Alan stated that, while a bookstore chain has approached him with an offer to lease space, he prefers a local business. He knows of the success of 3 Sisters and the loyalty of its customers and thinks that loyalty will extend to a 3 Sisters store in the mall, which will benefit all the stores.

The store space at the new mall will be double that which 3 Sisters currently occupies. Rent will be \$5,000 per month, which Alan claims is an attractive rate. The term of the lease will be for 36 months with a 3-year renewal option at the end of the initial lease. The renewal would be at the fair market value at that time. In addition, Alan has promised to pay for any leasehold improvements to the store in excess of what 3 Sisters paid in their current store, to a maximum of \$50,000. From your experience, you know the initial rate offered is attractive and that the offer regarding the leaseholds is an attractive inducement.

The sisters are very excited about the offer, telling you that double the space means double the sales. They would still keep their present downtown store location because they feel the quaintness of the location is essential for their success. The new store would be modelled on the downtown store.

The sisters also informed you that they have plans to expand to Sandyville, a town of 25,000 people 35 km north of Saraville. Sandyville has a picturesque downtown area with beautiful old historic buildings, similar to the Saraville of six years ago. There is plenty of free parking nearby, and the community is very stable. "Neighbours Helping Friends" is the town motto. In Sandyville, they could rent a space of similar size and character as the Saraville store for only \$1,500 per month. The lease would commence in three months. It would be a 5-year lease with one 5-year renewal for \$1,750 per month.

Required

In preparation for your next meeting with the sisters, you decide to draft a memo (maximum 1,700 words) detailing the issues you need to address:

- a) management control issues, both real and potential, that exist at 3 Sisters, along with recommendations for improvement
- b) the viability of the proposed expansion and any issues surrounding it

EXHIBIT 1

3 SISTERS BOOKSTORE**Balance Sheet**

as at December 31, 1999, 2000, and November 30, 2001

	11 months 11/30/2001	2000	1999
ASSETS			
Current assets			
Cash	\$ 55,300	\$ 51,500	\$ 25,200
Short-term investments	168,000	98,000	86,000
Accounts receivable	2,000	3,200	1,100
Inventories	<u>153,500</u>	<u>185,500</u>	<u>160,300</u>
Total current assets	<u>\$ 378,800</u>	<u>\$ 338,200</u>	<u>\$ 272,600</u>
Capital assets			
Leasehold improvements (net)	<u>\$ 16,000</u>	<u>\$ 20,000</u>	<u>\$ 24,000</u>
TOTAL ASSETS	<u>\$ 394,800</u>	<u>\$ 358,200</u>	<u>\$ 296,600</u>
LIABILITIES & EQUITY			
Accounts payable	\$ 8,400	\$ 1,700	\$ 5,200
Wages payable	6,100	4,000	3,200
Partner's equity	<u>380,300</u>	<u>352,500</u>	<u>288,200</u>
TOTAL LIABILITIES & EQUITY	<u>\$ 394,800</u>	<u>\$ 358,200</u>	<u>\$ 296,600</u>
Partner's equity			
Sheila			
Opening	\$ 167,633	\$ 135,800	\$ 113,333
Profit allocation	19,667	31,833	22,467
Drawings	<u>—</u>	<u>—</u>	<u>—</u>
Closing capital	<u>\$ 187,300</u>	<u>\$ 167,633</u>	<u>\$ 135,800</u>
Jeannie			
Opening	\$ 167,633	\$ 135,800	\$ 113,333
Profit allocation	19,667	31,833	22,467
Drawings	<u>—</u>	<u>—</u>	<u>—</u>
Closing capital	<u>\$ 187,300</u>	<u>\$ 167,633</u>	<u>\$ 135,800</u>
Theresa			
Opening	\$ 17,234	\$ 16,600	\$ 25,334
Profit allocation	19,666	31,834	22,466
Drawings	<u>31,200</u>	<u>31,200</u>	<u>31,200</u>
Closing capital	<u>\$ 5,700</u>	<u>\$ 17,234</u>	<u>\$ 16,600</u>
Total equity	<u>\$ 380,300</u>	<u>\$ 352,500</u>	<u>\$ 288,200</u>

EXHIBIT 1 (continued)

3 SISTERS BOOKSTORE**Statement of Operations**

for the years ended December 31, 1999, 2000,
and the eleven months ended November 30, 2001

	11 months 11/30/2001	2000	1999
Sales			
Books	\$ 649,500	\$ 662,520	\$ 567,890
Videos	34,850	26,890	19,500
Cards	5,547	4,520	3,600
Less: Returns and allowances	<u>1,455</u>	<u>980</u>	<u>1,300</u>
Total sales	<u>688,442</u>	<u>692,950</u>	<u>589,690</u>
Cost of goods sold			
Opening inventory	185,500	160,300	157,000
Purchases	412,402	480,200	391,005
Closing inventory	<u>153,500</u>	<u>185,500</u>	<u>160,300</u>
Cost of goods sold	<u>444,402</u>	<u>455,000</u>	<u>387,705</u>
Gross profit	<u>\$ 244,040</u>	<u>\$ 237,950</u>	<u>\$ 201,985</u>
Operating expenses			
Advertising	\$ 2,400	\$ 1,800	\$ 1,400
Amortization of leasehold	3,600	4,000	4,000
Bad debts	920	480	500
Bank charges	720	650	620
Heat, light, and power	6,600	5,500	5,000
Maintenance and repairs	32,250	1,870	1,665
Office supplies	1,100	1,350	1,200
Professional fees	2,400	2,400	2,400
Rent	24,000	24,000	24,000
Special events	4,800	3,600	3,200
Taxes	6,000	4,000	3,600
Telephone	2,800	2,500	2,300
Wages and benefits	<u>97,450</u>	<u>90,300</u>	<u>84,700</u>
Total operating expenses	<u>\$ 185,040</u>	<u>\$ 142,450</u>	<u>\$ 134,585</u>
Profit	<u>\$ 59,000</u>	<u>\$ 95,500</u>	<u>\$ 67,400</u>

Sample solution**Memorandum**

TO: Theresa, Jeannie, and Sheila
FROM: You, CGA
SUBJECT: 3 Sisters operating system and proposed expansions

In this memo, I will outline the current operating issues at 3 Sisters and include recommendations to improve any weaknesses identified. I will also address the operating issues that could arise if the expansion is done and evaluate the viability of the expansion.

Current and potential operating issues

There are several areas where 3 Sisters could improve the accounting policies and procedures to minimize potential risks. The benefits of improving these items are two fold: 1) It will allow us access to information to make better business decisions, and 2) it will safeguard our assets. The following explains how these benefits could be attained.

Internal controls over cash need to be strengthened. Currently, Theresa takes the cash home each night and deposits it in the morning. A night deposit should be made at the close of each business day in order to reduce the likelihood of theft and risk to you. This is also a personal safety issue for Theresa; someone could learn of the cash and decide to burglarize her home.

A formal payroll system should be implemented. Payroll was done by the external accountant and you were withholding 20% for source deductions. This current system is unnecessarily complicated and prone to error that could lead to penalties and fines from CRA. Further, employees could become frustrated with never receiving the pay they are entitled to, creating a potential for unhappy employees, which could affect customer service or lead to undesirable behaviours. The employees should receive a proper record of their wages and deductions.

There should be adequate insurance against fire, theft, and liability. There is no indication of insurance expense on the financial statements. A small fire in 2001 affected your profit for that year. A total loss could wipe out your investment. It is strongly advised that business insurance be purchased.

A formal partnership agreement needs to be put into practice. Theresa's partnership account continues to drop and, if the present decline continues, she could be in a negative equity position. Theresa is working five days plus two nights a week, while Jeannie and Sheila work one day and two nights a week. Although Jeannie and Sheila each contributed \$50,000 in original working capital, the imputed interest is out of proportion with the method of profit sharing. A more equitable method of profit sharing needs to be implemented.

Also, an accounts payable system should be implemented to take advantage of vendors' terms. By paying vendors immediately, you are giving up your cash too soon and could be putting that cash to other valuable uses during the interim.

Inventory controls should be strengthened. Currently, inventory status and reorder points are done by one of you observing customer trends. If you choose to expand, it is not feasible that one of you could be at each store to monitor the inventory. There is greater risk of over or understocking, which could result in lost sales and unnecessary inventory carrying costs. In addition, current controls over sales recording are very weak, allowing potential for suppressed sales and losses due to cash theft by dishonest employees.

Although sales invoices are pre-numbered, they are not reconciled. You have no way of knowing if all the sales are being identified. Daily sales should be reconciled to cash. A computerized system linked to the cash register and utilizing bar codes would significantly improve inventory control and sales tracking. If the expansion goes through, the system could be linked between stores to determine inventory needs and minimize obsolete inventory. With a computerized system you would have up-to-date sales and inventory information and would be able to control and prevent the above-mentioned losses from happening.

Currently there is no validation of credit cards. An electronic cash register could be designed to validate credit card purchases and thus prevent the current losses you are experiencing. While these amounts may not seem like much, over time they can add up to significant losses.

Overall a computerized accounting system and strengthened internal controls would allow you to access valuable information to make management decisions, give you more control over operations, and minimize losses. A computerized system would also be more time efficient than performing these tasks manually. These recommendations should be implemented regardless of expansion.

Expansion issues

The first step in determining whether the expansion should be undertaken is to prepare an estimate of financial feasibility. I have estimated the costs of each alternative for the first year based on the following assumptions:

- Leasehold improvements will need to be made at each location. Based on the current leaseholds, this would be approximately \$40,000 per store. While financing would need to be arranged, my estimates assume a 10-year life expectancy, which is taken into costs.
- Other expenses would remain at approximately the same level as the current store. While some items such as heat and taxes would be based in part on the size of the location, there is insufficient information to do proper projections at this time. In addition, it is assumed that some of the costs, such as taxes, could be included in the rent for the mall. On average, \$40,000 is used to represent other costs.
- You would not significantly increase your individual time in the stores. This means that wage expense at each of the new stores would be at least what the store currently incurs plus an amount to represent the cost of your labour. A base payroll of \$100,000 is assumed at the current location. A factor of 1.25 is used for the mall due to the longer hours expected, and a factor of 1 is used for the Sandyville store.
- Given the three-year running average gross profit of 35% and overall estimated expenses of \$391,000, sales would need to be approximately \$1,117,200 to cover expenses.

Estimates of financial feasibility:

	Saraville Mall	Sandyville	Total
Rent	\$ 60,000	\$ 18,000	\$ 78,000
Leaseholds	4,000	4,000	8,000
Other expenses	40,000	40,000	80,000
Salary	125,000	100,000	225,000
Total	\$ 229,000	\$ 162,000	\$ 391,000
Gross profit %	35%	35%	35%
Projected sales to break even	\$ 654,300	\$ 462,900	\$ 1,117,200

In addition to this information, other factors would need to be considered, such as the population demographics of the area around both proposed locations. There is also the possibility with expansion that the current customers will simply shop at the other locations, and thus sales would not increase, but expenses would.

Sandyville issues

Sandyville is similar to Saraville in population and community values. The quaintness of the current 3 Sisters' store is likely to "fit" well in a community whose motto is "Neighbours Helping Friends." Currently, 3 Sisters offers free child-care for customers, book readings, and personalized service, which is aligned with Sandyville's motto.

Saraville Mall issues

In addition to looking at the costs of this option, we need to consider if the projected break-even sales are based on the growth and demographics of the community. Population growth projections are good, but currently 60% of the population work in town. Since there has been no approval by town council regarding industrial areas, any new populates will likely be working outside of Saraville, and thus may choose to shop in the area they work instead of at 3 Sisters. Further, Alan has already been approached by another bookstore chain to rent space, which implies we will face increased competition. We need to determine the effects of the competition. With an explosion in population, the "values" of the community may change, such that 3 Sister's values will no longer be appreciated by the consumer base it serves. This will have significant strategic and operational implications.

Current cash flows are not sufficient to support the two new stores. Additional investment will be needed for inventory, leasehold improvements, and staff wages during the preparation and start-up period. As financing will likely be needed, detailed analysis, cash flow projections, and a business plan should be prepared in order to assess both working capital needs and long-term financing needs. Once these are completed, discussions could then begin with financial institutions.

We need to consider more than just the financing of the new locations. Internal and management controls over cash, sales, and assets are weak in the current location. We would need to implement the previously mentioned controls.

Staff will be increased with less direct supervision by you. Currently, 3 Sisters has an atmosphere of trust among employees; however, as the company grows more formal, controls are necessary to mitigate potential risks. This does not mean that the atmosphere of trust will be destroyed. It is very important to ensure that employees know that we trust them. However, to have no controls in place invites trouble.

A staffing policy and plan would need to be put into place. An analysis needs to be done to determine actual staff projections, and labour availability in the two locations needs to be considered.

Consideration also needs to be given to how the new stores would be managed. Should Theresa lessen her operational role and focus on managing all three stores? Or would it be best to hire a manager for the new locations? Are any of the current employees of sufficient calibre to take on management duties, and are they interested in such duties? If a computerized system is implemented, Theresa's time to dedicate to the managing of new operations would be increased. As well, with the hiring of my services, Theresa will not have to deal with the accounting needs of the business.

The partnership agreement should be reviewed and probably renegotiated, based on the expectation of expansion. For example, if Jeannie and Sheila continue to work limited time in the stores while Theresa works full time, the agreement could be revised to reflect an imputed interest on capital to Jeannie and Sheila and an imputed salary to Theresa, with the balance of the profits to be shared equally.

Overall, more information would be necessary in order to recommend definitively whether the expansion should be taken.

In conclusion, I strongly recommend implementing a computerized accounting system at the current location, along with some internal control procedures over cash and sales at the very least. We should conduct more research on the potential sales projections for each of the proposed expansion locations and prepare a formal business plan for each. From this information we can decide whether or not to pursue the expansion, and if we decide to, then we would have the business plan for the bank. If you have any questions, please contact me.



Assessment key**a) Management control issues**

Competency code	Competency	Action required to demonstrate competency
TK:FA:4	Ensures the reliability of financial information	<p>Identifies several areas where 3 Sisters needs to update its accounting policies and procedures to ensure that financial information is accurately reported.</p> <p>A proper payroll system should be implemented. Currently, 20% of employees' wages are deducted as an estimate of source deductions and corrected later. This could result in over/under deductions. Proper payroll deductions should be made when the employees are paid, and the employees should receive a proper record of their wages and deductions.</p> <p>There should be adequate insurance against fire, theft, and liability. There is no indication of insurance expense on the financial statements. A small fire in 2001 affected profit for that year. A total loss could wipe out the sisters' investment. It is strongly advised that business insurance be purchased.</p>
TK:IT:4	Identifies organization's IT needs to meet financial data processing, control, and reporting requirements	<p>Recommends that an electronic cash register be installed and used. This would eliminate unrecorded sales. Credit card purchases could be authorized at point of sale, eliminating rejection from the bank.</p>
GM:MM:1	Evaluates the outcomes of business activities and processes against objectives and benchmarks, and advises on further action	<p>Recommends that a number of management control issues be addressed, such as cash and sales, regardless of whether or not expansion is undertaken.</p> <p>Internal controls over cash need to be strengthened. A night deposit should be made at the close of each business day in order to reduce the likelihood of theft and risk to the owners. Although sales invoices are pre-numbered, they are not reconciled. The owners have no way of knowing if all the sales are being identified. The sequence should be checked daily.</p> <p>In introducing management control measures, it will be important not to diminish the high trust relation the owners have with their employees and customers.</p>

b) Criteria to be evaluated in determining whether or not an expansion should be undertaken

Competency code	Competency	Action required to demonstrate competency
TK:FN:2	Develops financial forecasts and plans	Recognizes that the first step in determining whether the expansion should be undertaken is to prepare an estimate of the costs.
TK:FN:5	Advises on financing to meet the organization's goals	Recognizes that current cash flows can only support the expansion of the Sandyville store during the start-up period. Financing availability must be assessed. As financing will likely be needed, detailed analysis, cash flow projections, and a business plan should be prepared in order to assess both working capital needs and long-term financing needs
GM:MM:7	Conducts business process reviews of existing systems, processes, and controls within the organization	<p>In order to increase the likelihood of success of the expansion, recommends that 3 Sisters should consider other changes.</p> <p>Internal and management controls over cash, sales, and assets would need to be improved. Staff will be increased and the sisters will provide less direct supervision. The sisters trust current staff, but cannot rely on them completely for these internal and management controls. The partnership agreement should be reviewed and probably renegotiated, based on the expectation of expansion. For example, if Jeannie and Sheila continue to work limited time in the stores while Theresa works full time, the agreement could be revised to reflect an imputed interest on capital to Jeannie and Sheila, an imputed salary to Theresa, and the balance of the profits to be shared equally.</p> <p>Care should be taken when implementing new internal management and control systems to assure employees that these systems are not being introduced punitively in response to perceived wrongdoing.</p>
TK:GEN:6	Recognizes market factors and adapts business decisions in the context of the organization's sector and industry	Identifies other factors that need to be considered, such as the population demographics of the area around both proposed locations. Also there is the possibility with expansion that the current customers will simply shop at the other locations and thus sales would not increase, but expenses would.

Overall case — Assessment key

Competency code	Competency	Action required to demonstrate competency
GM:COMM:4	Prepares a wide variety of reports for specific purposes using clear, communicative, and professional language	Communicates the required information in a professional memo format

